Nation's Business

A USEFUL LOOK AHEAD

APRIL 1960

How to sell the NEW MASS MARKET

PAGE 44

Where boom is headed PAGE 67

More audits: tougher tax collection coming PAGE 35

Key men need more than pay PAGE 40

Unions will demand new rights PAGE 38

KENTILE VINYL
ON TODAY'S SMARTEST FLOORS

Now! Sparkling golden beauty . . . at surprising low cost!

This gift shop floor combines Ermine Gold and Sable Gold Metallic Style Kentile® Vinyl Asbestos Tile. With Bright Gold and White Feature Strip. Wall Base is Beige KenCove®. Insert is custom-made.

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THERE'S A KENTILE FLOOR FOR EVERY BUSINESS. Not only *Vinyl Asbestos* but a complete choice also in *Solid Vinyl* for utmost luxury, *Rubber* for comfort underfoot, and economical *Asphalt Tile*. Over 200 colors!

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Nation's Business

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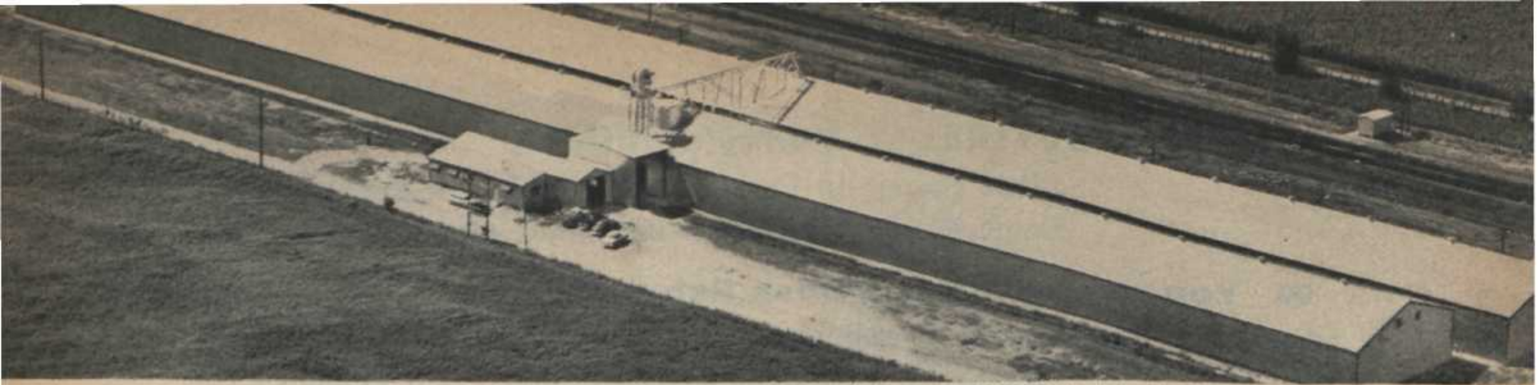
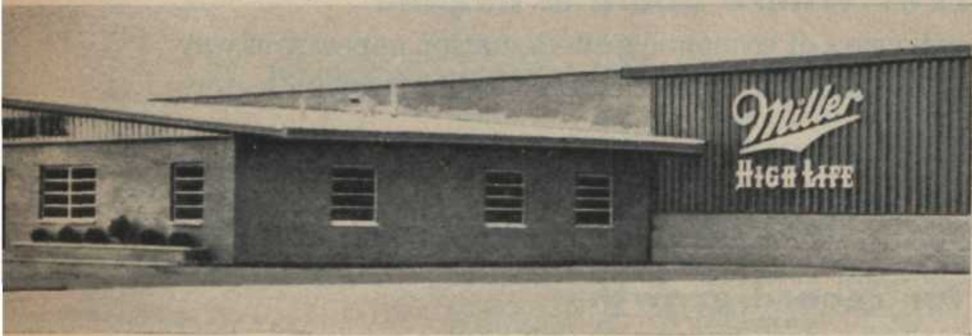


Terminal Grain Company, Grand Island, Nebraska • Butler buildings store 2,000,000 bushels of grain

Office and Warehouse, Bonbright, Incorporated, Dayton, Ohio

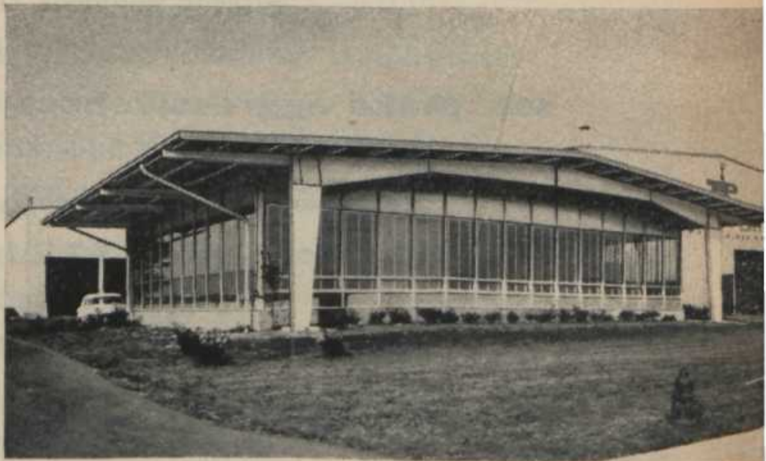


Truck Sales and Service, Abilene, Texas

ASTUTE BUYERS CHOOSE THE BUTLER

Over 100,000

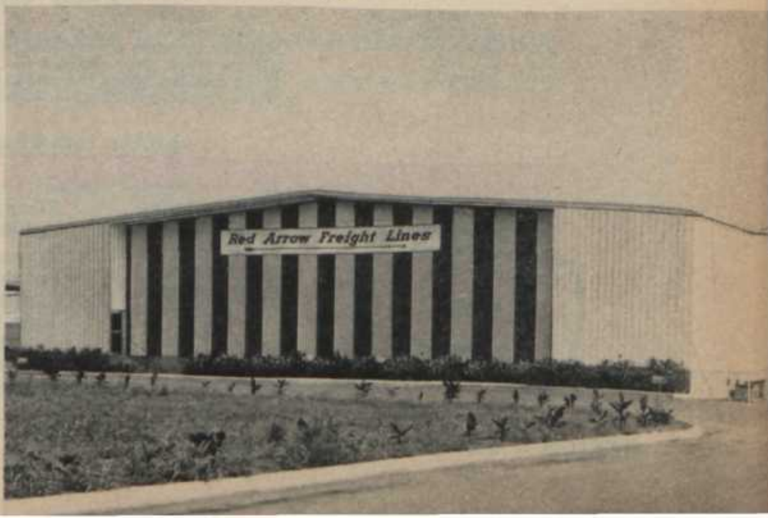
Waialae Bowl, Honolulu, Hawaii • Architect: Takashi Anbe, A.I.A.



Toledo Plate and Window Glass Company, Maple Heights, Ohio

Shopping Center, Kenosha, Wisconsin • Architects: Brown & Marx

Red Arrow Freight Lines, Dallas, Texas



Flick-Reedy Corporation, Bensenville, Illinois • Architect: Zay Smith Associates; Designer, Norman Steenhoff

St. Raphael's Church, Venice, Florida • Architect: Thomas J. Madden, A.I.A.

Electronics Associates, Inc., West Long Branch, New Jersey • Architect: B. Kellenyi

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Butler Buildings

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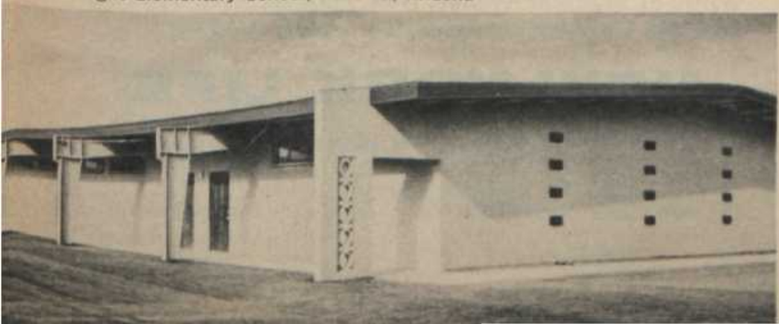
Cartwright Elementary School, Phoenix, Arizona



Queensway Volkswagen, Toronto, Ontario • Architect: Lipson and Dashin

Some Companies Never Recover
from the loss of a key man!

Replacing an executive can be costly and time-consuming. Business Insurance from New York Life can minimize loss!

Almost every company has at least one key man—a man whose knowledge, abilities and efforts result in business profits.

If he dies or is disabled, his company may be in for serious trouble. The loss will cause continuing disruptions. Sales may be hurt, research impeded, production slowed. Finding a replacement may be difficult, can be very costly. And breaking in the new man will take time. The loss of the key man, and the resulting drain on profits, can well mark the beginning of a company's end.

To hedge against such a loss, many companies rely on Business Insurance from New York Life. Tax-free funds are then available at the executive's death for many business needs: to offset profit losses, to attract a successor, or to continue income for the executive's family.

Business Insurance also provides additional values—as credit and collateral for the company, as a source of funds for the executive's retirement.

For facts about the many kinds of Business Insurance available through your New York Life Agent, call him soon, or write: New York Life Insurance Company, Dept. NB-3, 51 Madison Avenue, New York 10, N. Y. (In Canada: 443 University Avenue, Toronto 2, Ontario)

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LEADER IN BUSINESS INSURANCE (Nylic)

Life Insurance • Group Insurance
Annuities • Accident & Sickness Insurance • Pension Plans

management's WASHINGTON LETTER

▶BUSINESS WILL GET a $5 billion shot in the arms in weeks ahead.

That's estimated sum Uncle Sam will refund to taxpayers who overpaid on '59 income.

Importance as business stimulant is that it's widely distributed, goes mostly to people who can be expected to spend it now.

Good guess is that about 35 million Americans will get an average of $115 each, maybe more.

Average year ago was $111, up from $104 two years ago.

Add to this fact that corporations, too, will get money back for overpayment.

Possible 97,000 businesses will get more than $830 million returned.

▶MORE TAX FORMS will be audited this year than ever before.

Probable number:

About 2.8 million.

That's about 200,000 more than were audited last year.

If you are self-employed or if you earn $10,000 a year or more (average Nation's Business reader does) you can expect thorough checking of your tax return.

More details on what this is all about appear on page 35 in exclusive interview with Tax Chief Dana Latham.

▶WATCH OVERTIME--it's peaking.

Next news you'll hear about overtime work is that it's slipping.

Here's picture in advance:

Average factory worker is putting in two hours 48 minutes a week overtime.

It's three hours a week for workers in durable goods industries, two hours 36 minutes for nondurable goods.

Average has been creeping up.

Now it's expected to plateau, then begin creeping back down.

That'll reduce average workweek (now little less than 40½ hours).

Importance to all businessmen--big or small--is this:

Changes in length of average workweek usually come months ahead of major economic fluctuations.

Study covering economic changes since end of World War I indicates length of average workweek will taper off, begin to decline about seven months ahead of business dip.

▶HOW FAST DO WAGE INCREASES in big industries spread to others?

Government's trying to find out.

Started is new $1 million survey by Bureau of Labor Statistics.

Bureau is gathering information from 80 areas, centering attention on small and nonunion companies.

Previous studies have concentrated on wage settlements in the big union contracts.

Government wants to know if big union settlements are really representative.

If that's the case, do big contracts influence wages in smaller companies?

Labor Statistics Chief Ewan Clague hopes to find some new clues to inflation causes.

Look for results about year end.

▶WHAT COMPARATIVE WAGE ADVANTAGE do other nations have over U.S.?

Government isn't satisfied with ways of getting information, is undertaking study to improve data.

Study will measure fringe benefits on top of money wages in world's largest manufacturing nations, including Iron Curtain countries.

Key question government wants answer to is this:

Is wage advantage foreign producers have over U.S. due to efficiency or substandard wages?

Study results will be available months from now.

▶YOUR BUSINESS SUCCESS means more--financially--to Uncle Sam than to your stockholders.

U.S. expects to collect estimated $23.5 billion slice of corporation profits this year.

Corporate stockholders at most can count on only about $12 billion dividends, maybe a little more.

How a specific company is affected by taxes is shown by B.F.Goodrich Company report.

Common stock paid $2.20 a share during past year.

Taxes totaled $10.21 per share.

▶AMERICA WILL BUILD $1 billion worth

of new churches this year. That's biggest volume ever, 14 per cent ahead of past year.

With spring here, other forms of new construction will step up to full force, head for new construction peak.

Probable '60 total:

$55.3 billion.

That'll be two per cent higher than '59 volume.

Expectation is that economy will get biggest boost from these categories of new construction:

Industrial buildings--$2.5 billion total, volume up 26 per cent in year.

Office buildings, warehouses, stores, restaurants, garages, other commercial buildings--$4.5 billion worth, volume up 16 per cent for '60.

Privately financed educational buildings--$600 million, up 12 per cent.

Publicly financed educational buildings--$2.8 billion worth, volume to be three per cent higher than '59.

Privately built hospitals--$700 million worth, 23 per cent higher.

Social and recreational buildings--$700 million, up 30 per cent.

We'll also build nearly $5.4 billion worth of public utilities, volume up five per cent.

Publicly financed hospitals will reach $450 million, up six per cent.

New sewer, water systems will add up to $1.6 billion, rise of 11 per cent.

Public residential buildings will fall 10 per cent (to $900 million).

Down also will go:

Military facilities construction--$1.4 billion total, down eight per cent.

Highways--$5.7 billion total, down about two per cent.

We'll build about $16 billion worth of new homes, but that'll be down about six per cent.

Additions and alterations to existing homes will total $4.6 billion, rise of about five per cent.

▶LEGISLATIVE LOGJAM will pile higher.

Watch appropriations.

House has okayed six bills, has seven to go.

Senate score: None.

Key debate on money bills will center on agriculture, defense, public works, labor and welfare.

These are areas where big money, much politicking are involved.

▶LAWMAKERS WILL TRY to end session by early July.

Democratic nominating convention is scheduled for July 11 in Los Angeles.

Republicans will meet in Chicago on July 25 to nominate their candidates.

Cloakroom talk about coming back to Washington to finish up after conventions is just that--talk.

Idea is gaining no strength.

All of the House, third of Senate is up for election.

Members are eager to turn attention to campaigning back home rather than return to Washington to pass laws.

▶WATCH FOR SURPRISES in the scramble to cram legislation through before the July deadline.

Here are key proposals you'll want to keep an eye on:

\- - -

Labor legislation--Senator Kennedy wants to give union leaders freedom to use secondary boycotts in construction industry.

This proposal is first attempt to weaken Landrum-Griffin Labor Reform Act passed last year.

Companion measure in the House is called Thompson bill.

\- - -

Wage controls--Controversial proposal would boost federal minimum wage to $1.25 an hour (from $1), extend coverage to millions more workers.

Wage floor was boosted from 75 cents an hour in '56 (also election year).

Government report on what happened as result of that action shows that "significant declines in employment" occurred in some areas during period of adjustment.

Watch for compromise at $1.10, with possible extension of coverage.

\- - -

Price controls--This measure would empower government to investigate price increases in advance.

Walter E. Hoadley, Armstrong Cork Company treasurer, told committee:

"Price control by hearings, publicity, fact-finding, advisory statements--is still price control."

management's WASHINGTON LETTER

Backers are trying to get proposal onto Senate floor for discussion.

- - -

Socialized medicine--Big push coming to provide free government health insurance for people getting social security payments.

Important social security concept would be altered in one bill. Beneficiary would be told how part of his benefit money would have to be spent.

Proposal also would boost payments as much as 30 per cent, hike taxable wage base from current $4,800 a year to $6,000, reduce retirement age for men and women.

Whatever may be approved is certain to boost your payroll costs.

- - -

Unemployment pay--One proposal would establish federal requirements for state jobless pay programs.

Another would make small increase in federal jobless pay tax.

Passage is unlikely this year.

- - -

Tax reform--Proposal would reduce corporate and personal income taxes for five-year period.

Don't count on it this session.

- - -

Federal education--There's strong support (against business opposition) to provide federal money for teachers' salaries and school construction.

Whatever might be approved will be vetoed if salaries are included.

Look for a push to put through a construction bill only.

- - -

Veteran's benefits--Big pressure is behind proposal to give wartime-type benefits to peacetime veterans.

Included would be education, loans for housing and farms. Loan-guarantee program for War II vets expires July 25. Extension is possible.

These measures, all others proposing benefits to veterans would cost total of $3.6 billion first year, $23.7 billion in first 10 years.

Look for most proposals to be dumped.

▶UNION SPENDING to influence elections will reach record high this year.

Total is well-kept secret.

Unions will have to report more than $1 million in direct contributions to favored candidates for federal office.

But they won't have to account for many more millions spent for so-called political "education."

Union dues also are spent for election-day workers, political meetings, getting voters to register and transporting them to polls, publicity.

Indictment of Teamsters Union officers in St. Louis won't cut political spending much, if at all.

Indictment charges cash donations to candidates out of union treasury funds violates Corrupt Practices Act.

Union officials claim donations were voluntarily authorized by members.

No final court answer can be expected before November elections.

This test of legality of spending union money for political purposes is fifth brought by government.

Government lost all previous cases.

Federal law was found to be ineffective against these union practices:

Printing, distributing extra copies of union newspapers endorsing candidates.

Political advertising over radio and in city newspapers when union doesn't have newspaper of its own.

Paying salary of union officials who spend part or full time politicking.

Publicizing favored candidates on a union TV program.

▶WATCH THE BOGGS BILL on lobbying--it's important to your political activities.

Here's background:

Internal Revenue Service rules your spending in support of or in opposition to proposed legislation isn't tax-deductible expense.

Rep. Hale Boggs calls this censorship by taxation.

Bill introduced by him would reverse government action. Other measures are pending but many backers rally behind Representative Boggs.

Says Secretary of Commerce Mueller:

"Legislative bodies need openly expressed opinions in order to carry out their functions properly."

Says Sen. Vance Hartke:

Needed is "a ground swell of support from grass roots" for bill to enable businessmen to continue supporting or opposing legislation.

Business opinion:

Reader has plan to reduce U. S. debt

MEMBERS OF CONGRESS frequently view with alarm the large debt of the United States government. Why doesn't some congressman fight to have included in the yearly budget a sum which would be used solely for debt reduction in the fiscal year?

Probably that member of Congress would run into counter arguments that the sum he mentioned could be better used in solving some pressure group's demands, and to forget about debt reduction.

It seems inconsistent that the government operates on the principle that it is not wise to liquidate or reduce indebtedness, whereas this action is one of the cardinal rules on which an individual or a nation establishes good credit for future borrowings.

Bills have been introduced to carry out the proposal.

There is another avenue that can be traveled in attaining debt reduction. Individuals and business organizations that have a desire to see this done can take the following steps:

An organization can be established to accept contributions and apply the money to liquidating indebtedness of the government. This would be a nonprofit organization.

When the sums this organization has received are large enough, it can enter the financial market, and purchase any issue of U. S. indebtedness.

Once it has bought these bonds the organization forwards them to the Treasury Department with a request that they be liquidated and destroyed without reimbursement to the organization. Those contributing to the organization would have the right of deducting their contributions from gross income on tax returns, the same as those rights presently given to other nonprofit organizations.

HENRY W. LANDENBERGER
Northern Ordnance, Inc.
Minneapolis, Minn.

Spending on schools

I read with interest your article on "The Real Crisis in Our Schools: Federal Domination" (March). I think you have presented the negative side of federal support for education rather skillfully. Of course, there is another side and naturally I think it is more commanding.

What I am really writing about is the comparison of 1890 to 1960.

The free public high schools were hardly under way in 1890. A much smaller percentage of our youth attended high schools then than now attend college. The whole concept of universal education has changed tremendously in 70 years. This you seemed not to take into account.

In a way, the same can be said about elementary education. Kindergartens were virtually unknown in 1890 and schools were customarily run four, five or six months in many sections.

I would suggest that whoever made the comparisons run figures for 1950, 1940 and 1930. These would not disclose the discrepancies that the author tries to present.

C. O. WRIGHT
Executive Secretary
Kansas State Teachers Association
Topeka, Kans.

►*Yes, they would. Following Reader Wright's suggestion provides this picture of school spending: 1930, $2.1 billion; 1940, $2.3 billion; 1950, $5.4 billion; and 1960, $19.5 billion.*

What really ruffles my feathers is when those in charge of schools place education second in importance, a long way behind the field of sports.

Costs? Yes indeed! Our schools send their coaches to spy on other schools in an attempt to beat them at some sporting event. Our children and teachers are kept out late many nights to attend sporting events. Our school systems include expensive buildings used only for sports. Our systems go heavily in debt to buy large tracts of land to be used only for sports.

Personally, my family and I enjoy vacation trips. We cannot enjoy them as often as we would like because of the high taxes paid. Whenever we do go the funds are somehow squeezed out of our family

budget. We personally make a sacrifice to enjoy the vacation. We do not ask all taxpayers to chip in. Why then would it not be fair for those people that enjoy sports to foot their own bill rather than have the majority of uninterested people pay the bill for them?

G. A. STIRL
Certified Public Accountant
Sugar Land, Tex.

If Congress would follow the kind of realistic thinking used by your author, we wouldn't be in the position of having to worry about competition from Russia. I for one, do not believe the American public agrees with the lawmakers in their headlong dash to try to cure all our ills with increased federal appropriations.

RICHARD K. WORSLEY
Worsley and Worsley
Greenville, N. C.

How many want jobs

Sometimes I wonder how accurate are all of the statistics quoting billions of dollars and millions of people.

In the March issue you state that 26 million young people will be added to the work force in 10 years. Three sentences later you state that about 1.5 million youngsters will join the work force each year. It will be quite difficult to have 26 million in 10 years at the rate of 1.5 million per year.

ELMER D. TUCKER
Office Mgr.
Kellerstrass Bros.
Ogden, Utah

► *The 26 million is a gross figure. The net gain for the work force will be 13.5 million. The 1.5 million average is for the mid-1960's, not an average for the entire period. Annual additions will grow in the succeeding five years.*

Which way are we going?

May we have permission to reprint your splendid editorial, "Which Way Are We Going?" (March) in our bulletin, which is circulated to our employes and customers? We would of course give you credit.

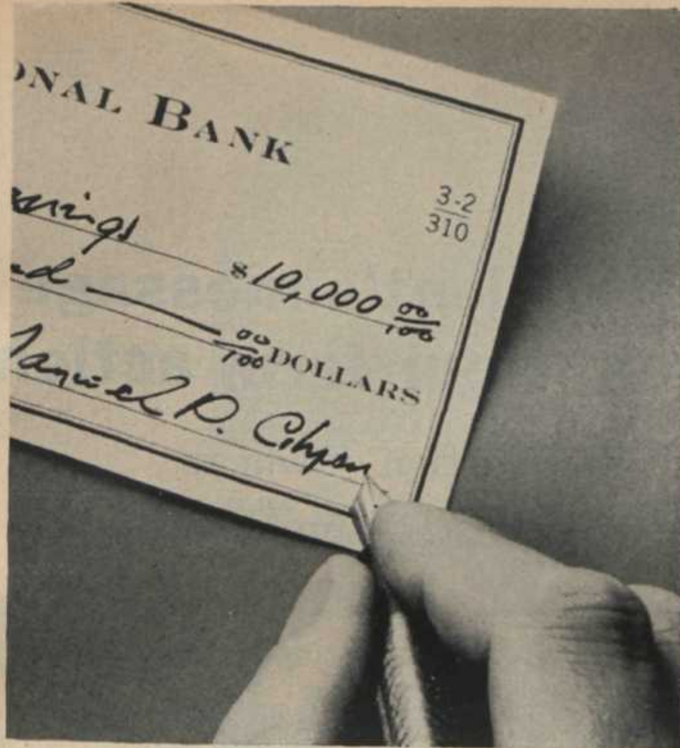
J. M. MALONE
President, C. A. Turner, Inc.
Industrial and Electrical Supplies
Pittsburgh, Pa.

► *Permission granted.*

Filling the files

It is a rare issue of the NATION'S BUSINESS that does not contain at least one or two articles that belong in an active management reference file.

L. H. SNYDER
Assistant Methods Analyst
Field Services Division
The Prudential Insurance Company of America
Newark, N. J.



Would you invest $10,000 to lose $350 a year?

Doesn't make business sense, does it? Yet that is exactly what is being urged on the U. S. by the lobbyists for more government-in-the-electric-business.

But their figures are a million times larger. And all taxpayers—including you—would have to pay, and keep on paying, for this deal.

AVOIDING SHARE OF TAXES

Here's how it works. The advocates of federal electric power systems want government to spend $10,000,000,000 *more* on top of about $5,500,000,000 of taxpayers' money already spent. These so-called "public power" systems are exempt from all federal taxation, and largely from any state or local taxing. On the other hand, $10,000,000,000 spent by independent electric companies would *produce* about $350,000,000 yearly in federal, local and state taxes, at today's rates.

TAXPAYERS PAY TWICE

So the "public power" proposal boils down to hitting most taxpayers *twice:* use their taxes to build government power systems—and tap them for the share of taxes that government systems escape.

UNNECESSARY SPENDING

The tragic fact is that more spending for such federal power programs would be unnecessary. The hundreds of independent electric companies are able and ready to provide for the nation's growing electric needs. They are financed by investors instead of taxpayers. They've proved they can supply plenty of low-price power without using tax money to do it.

WHAT YOU CAN DO

The choice seems so easy you wonder why it's necessary to talk about it. But that $10 billion may be spent for more federal "public power"—because so very few people know the facts.

Will you help spread the word? Everybody's income is at stake, just as much as the taxes, prices and profits of your business. The coupon below will bring you more facts and figures. Check the information you want. It will come promptly, at no charge.

AMERICA'S INDEPENDENT ELECTRIC LIGHT AND POWER COMPANIES

POWER COMPANIES
Room 1111-I,
1271 Ave. of the Americas, New York 20, N. Y.

Please send material checked below:

- [ ] The new, free booklet, "Who Pays for Government-in-the-Electric-Business?" . . . telling how my taxes are affected when the government gets into the electric business, and important facts about the independent electric companies.
- [ ] Names of companies that sponsor this advertisement.

NAME ____________________
(Please Print)
ADDRESS ____________________
CITY ____________ ZONE ____ STATE ____________

WATCH THIS ISSUE

President's message may spur farm action

Overproduction of wheat presents critical problem

THE AMERICAN TAXPAYER is spending more than $6 million a day to bolster farm prices and income.

This cost has increased nearly five times in 10 years. Unless current farm legislation is changed, there seems little doubt that the cost will continue to climb over the long run.

Hope for a break in the stalemate between the Administration and Congress has come, however, with President Eisenhower's recent farm message. In it, the President stated that he will approve "any constructive solution that the Congress wishes to develop," within three guidelines:

- Price support levels should be "realistically related to whatever policy the Congress chooses in respect to production control," recognizing that "the higher the support the more regimented must be the farmer."
- Price support levels should be "not so high as to stimulate still more excessive production, reduce domestic markets, and increase the subsidies required to hold world outlets."
- We must avoid "direct subsidy payment programs for crops in surplus" and "programs which would invite harmful countermeasures by our friends abroad, or which, while seeking to assist one group of farmers, would badly hurt other farmers."

The President went on to say:

"I will approve legislation which will eliminate production controls, or make them really effective, or allow the farmers themselves to choose between realistic alternatives.

"I am willing to gear supports to market prices of previous years, or to establish supports in accordance with general rather than specific provisions of law, or to relate price supports to parity."

The need for new farm legislation is heightened by this country's growing wheat surplus. Nearly $3.5 billion in government funds are tied up in wheat, constituting more than one third of the total funds invested in Commodity Credit Corporation inventories and loans on all farm commodities.

Carryover stocks of wheat now total 1.3 billion bushels and will continue to build up at the rate of 100 million to 200 million bushels a year under present legislation. Stabilization of wheat prices is costing the taxpayers more than $1 million a day. This cost includes the losses of the Commodity Credit Corporation in disposing of wheat acquired from farmers under the price support program, together with the cost of transportation, storage, and interest on Treasury loans to finance price support operations.

The present wheat program provides for limitation of production through acreage allotments and marketing quotas and for support of prices at 75 per cent of parity, a concept which equates commodity prices with 1910-14 purchasing power. Two weaknesses in the program, both statutory requirements, have contributed to the tremendous build-up of a wheat surplus:

The government is prohibited by law from setting the national wheat allotment below 55 million acres.

(continued on page 23)

Here's how much a Volkswagen Truck holds

a standard half-ton truck holds only the white sets

The VW is almost 3 feet shorter than a standard half-ton truck, yet it carries 830 pounds more.

Hard to believe, but true. Instead of half a ton, or 1,000 pounds, the VW Panel Delivery holds 1,830 pounds. Its cubic capacity is greater, too: 170 cu. ft. vs. 145 cu. ft. It costs only $1,895.*

The economic advantage is plain. For although the Volkswagen carries very much more, it costs only *half* as much to run. Generally, you'll get about twice the gas mileage. And with about half the usual unladen weight there's only half the usual tire wear. The air-cooled VW engine needs no oil between changes and no anti-freeze at all. You also save on service, depreciation and, in many states, license fees and insurance.

You also save *time*. The Panel Delivery loads and unloads through big double side doors, as well as the rear door. Double doors on *both* sides are optional. So you not only load more into a VW; you load it faster.

Why not call your authorized VW dealer for a demonstration, operating cost figures and a cost comparison, today.

**Suggested retail price, East Coast Port of Entry.*

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Fill in and mail the attached postcard. Or call the "Thermo-Fax" Copying Products dealer listed in your Yellow Pages.

THE TERM "THERMO-FAX" IS A REGISTERED TRADEMARK OF MINNESOTA MINING AND MANUFACTURING COMPANY.

MINNESOTA MINING AND MANUFACTURING COMPANY

...WHERE RESEARCH IS THE KEY TO TOMORROW


PERFECTLY
DRY

They've worked their way into the language...

What one name means truck to you? People the world over would answer Mack, for "Built Like a Mack" long ago became part of the language, denoting strength, long life and unmatched performance.

Today, as always, the name Mack still signifies the ultimate in truck performance. It stands for vehicles endowed with bulldog dependability . . . that get the important jobs done most economically. It's the standard by which other trucks are judged.

If truck transportation has a part in your business, your Mack representative will gladly outline the many specific reasons why Mack trucks will prove the most profitable in your operation.

BUILT LIKE A ***Mack***

Emergency vehicles that must stand ready to answer any call . . . or hard-working haulers that daily carry America's cargoes or keep its construction moving—here and everywhere there are important trucking jobs, you'll find that Mack economy and dependability are bywords. The reason? Balanced Design—the exclusive Mack practice of manufacturing in its own plants all vital components to work together for highest fuel economy, greatest freedom from profit-cutting downtime, and longest useful mileage life.


Mack
CAFE

FARM ACTION
continued

Without this legal minimum, the wheat allotment under the present law would be zero acres, in view of the existing surplus. Since the 55-million-acre minimum was adopted in 1938, acreage yield for wheat has increased 50 per cent as a result of advances in farm technology.

A farmer can produce as much as 15 acres of wheat without limitation by allotment. Some 690,000 farmers used this loophole in 1959, an increase of 152,000 in three years. Overproduction of four million to five million acres of wheat yearly has resulted.

As wheat production has gone up, its consumption has gone down. An estimated 62 million bushels will be used as feed this year as compared with 109 million bushels in 1950. Human consumption of wheat products has also turned downward. As incomes have risen, the cheaper cereal grains have been replaced by meat and other foods. Use of wheat for food has risen only from 480 million bushels in 1950 to an estimated 500 million bushels this year despite the much greater proportionate increase in population.

The wheat surplus now on hand would provide 450 one-pound loaves of bread for every man, woman and child in the United States.

Day by day the present program "further distorts wheat markets and supplies," the President emphasized. "Its only future is ever higher cost. Inexorably it generates ever larger surpluses which must be expensively stored."

Though stating that he will sign "any constructive solution," the President has urged that Congress enact legislation eliminating acreage allotments and marketing quotas for wheat effective with the 1961 crop, freeing the farmer from federal controls. He also asked that price support levels be set as a percentage of the average price of wheat during the three preceding years rather than as a percentage of parity. The Administration believes that lower price supports will help cut production.

In addition, the President urged that the four-year-old Conservation Reserve Program of the Soil Bank, under which farmers receive federal payments for taking land out of production, be extended for three years. The program expires this

FARM ACTION

continued

year. More than 28 million acres, six per cent of our producing cropland, is now in the reserve, and the Administration would like to see this expanded to 60 million acres as a means of further reducing production.

Business opinion, as represented by the U. S. Chamber of Commerce, agrees with the Administration's proposals to the extent that they may help in getting the federal government out of controlling farm production and supporting farm prices in times of normal demand. As a broad principle, the Chamber believes:

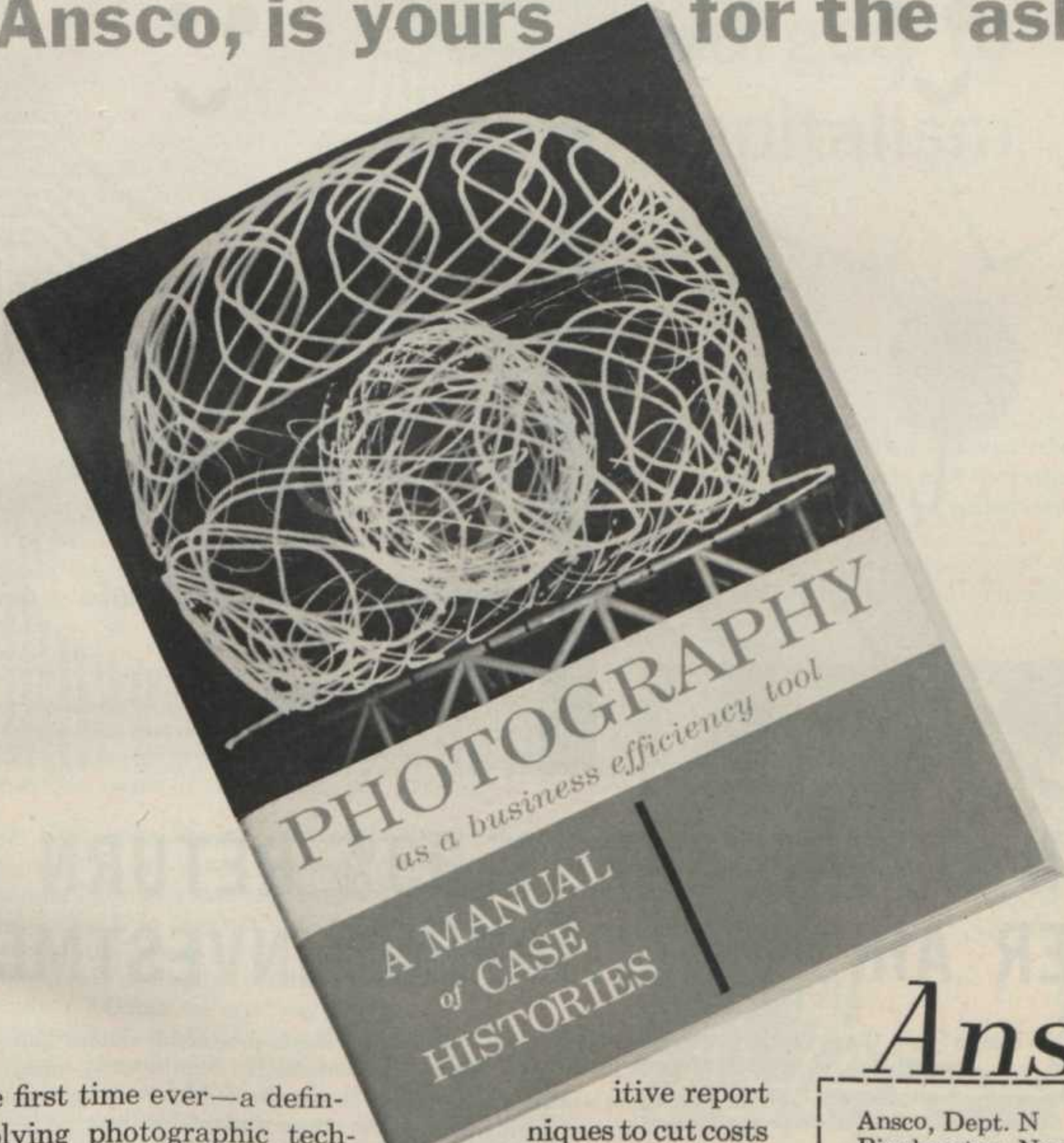
"A national farm program should rely mainly on the interplay of the economic forces of supply, demand, and technology which can neither be ignored nor circumvented. Levels of production should be determined by the operation of economic forces working through the price system of a free economic society. The choice in the use of land, labor and capital should be left to farmers themselves."

In the background of the debate over farm measures is the fact that farm income has not kept pace with the income of the rest of the country. In 1951 farm income was $983 per capita as compared with $1,763 for the nonfarm population. Last year farm income was only $960 per capita, while nonfarm income had risen to $2,202. This condition exists despite the fact that total agricultural assets are at an all-time high of $208.2 billion, evidence of the over-all stability of agriculture.

Farm people feel that they have been the real victims of inflation. Between 1939 and 1952 prices paid by farmers, including interest, taxes and wage rates, rose 133 per cent, and since 1952 they have risen another four per cent. The cost of tractors, farm implements, tires, oil, gasoline, fertilizer and insecticides has climbed out of proportion to the prices that farmers have been able to get for their produce.

An Agriculture Department official points out that control of inflation is an important factor in solving the farm problem.

Chances for passage of a general farm program in this session of Congress appear slim. It is an election year, however, and the urgency of the wheat situation may lead to action on that portion of the problem at least. **END**



PHOTOGRAPHY
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A MANUAL of CASE HISTORIES

SHIP 'N SHORE EARNS 33% RETURN ON CARRIER AIR CONDITIONING INVESTMENT

Every manufacturer knows that the successful solution of one problem carries within it the seed of another.

In the case of Ship 'n Shore, makers of the famous line of girls' and women's blouses, style and fit created nation-wide acceptance. But the demand that followed caused production headaches in their Upland, Pa., plant. One of them: how to turn out enough blouses for the back-to-school market during the hottest months of summer—when efficiency of workers was at its lowest ebb.

Consulting engineers advised management to install air conditioning, based on the fact that a mere 1.5% increase in work production will cover owning and operating costs. During the five years since the system was installed, actual results have far exceeded this theoretical break-even figure.

The increase in work output of Ship 'n Shore employees during summer months has been so great that annual production has been boosted an actual 10%. Even more gratifying, the annual profit return on the air conditioning investment has amounted to 33%—enough to pay back the cost of the system in three years!

Other benefits have accrued to the company, too. Employee turnover has been so sharply reduced that a $15,000-per-year worker training program was no longer required. Morale is improved, quality is more uniform and absenteeism has dropped.

Many other manufacturers report that Carrier year-round air conditioning is producing similar gains in productivity. Significantly, these gains are not affected by the geographical location of plants or the type of products being manufactured in them. On the other hand, the worker density in a given plant or plant area is almost always a key factor. Where the number of square feet per worker is low, the return on an air conditioning investment is invariably high.

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Strikers urged to smash capitalism

BY FELIX MORLEY

SINCE FIDEL CASTRO seized power in Cuba, anxiety in regard to communist indoctrination has mounted throughout the United States. The reaction to Marxist moves on the part of this Caribbean dictator is far stronger than has been the case with somewhat similar gestures by the rulers of Indonesia or Guinea. Approval was widespread when President Eisenhower, in his Declaration of Brasilia, said bluntly:

"We would consider it intervention in the internal affairs of an American state if any power, whether by invasion, coercion or subversion, succeeded in denying freedom of choice to the people of any of our sister republics."

This difference in sensitivity is natural. It isn't welcome when a distant country, with which few Americans have ever had any contact, flirts with communism. But it is distinctly disturbing when a close neighbor, with whom our relations have long been friendly and mutually profitable, develops almost overnight a phobia for our way of life.

That being so, it would seem to follow that evidence of outright communism within our household would be even less tolerable. If the doctrine seems dangerous in Havana, it is surely more so when advocated in Portland, Ore. Yet certain ominous incidents in that pleasant city have been receiving far less publicity than is due, assuming that the undesirability of communist activity increases the closer it comes to home.

• • •

Early last November strikes against the Portland *Oregonian* and the *Oregon Journal* were called by the Stereotypers Union of that city. One of the issues was whether foremen should be subjected to compulsory union membership; another was whether an automatic casting machine, needing only one operator, should be manned by four, as the union required.

The specific issues, however, have little bearing on the sequel discussed here. On the eve of the strike the publishers offered to submit all unresolved issues to binding arbitration. But this was rejected, presumably on the assumption that all other organized workers in the two plants could be called out and the papers closed.

Management, however, decided to resist. The two papers were temporarily combined and, in spite of

Calling itself "labor donated" the All Union Caucus Bulletin *urges revolutionary violence*

picket line violence, have been able to give adequate service to their readers and advertisers. Strike developments have been fairly reported, disregarding the animus of the Inter-Union Newspaper Strike Committee, to which Jimmy Hoffa early made a Teamster donation of $25,000 as a gesture of solidarity.

The municipal administration of Portland has worked overtime to keep disturbance to a minimum.

Into this tense situation, quite early in the conflict, there was injected a publication calling itself the *All Union Caucus Bulletin* and self-advertised as "labor

donated." Sent through the mails to many citizens of Portland, this crudely printed, four-page periodical is obviously communist-inspired. The masthead carries the slogan: "Where production for profit fails the common good there shall be production for use under ownership of the whole people." It calls openly for revolutionary violence against the "corrupt, degenerate, dying social order" of the United States.

This propaganda is inflammatory throughout. An article headed "What To Do" advises strikers that they have "a citizen's right to own, bear and use weapons and to organize for common self-defense against unlawful attack." Then comes an "in particular" recommendation:

"Every worker should own a revolver and a rifle. He should be a marksman with each and keep a good supply of ammunition for each.

"Organize and train workers gun clubs for target shooting, and/or hunting and fishing clubs, in every enterprise and in every union jurisdiction."

Hunting and fishing are favorite recreations in the beautiful Oregon countryside. But good, clean sport is not the objective of these proposed "clubs." Their real purpose is revealed in a plea to strikers who find that their leaders oppose violence and "have no stomach for the class struggle." Once the gun clubs have been organized the moderate union leadership should be replaced by communists "who have the brains and guts to fight against the dictatorship of

Lenin urged armed action by the population headed by unions as final step to victory of communism

the capitalist minority and for the needed dictatorship of the vast working-class majority."

In view of such incitement there might well have been more than coincidence in the dynamiting of ten trucks, under contract to the Portland newspapers, while this Red propaganda was freely circulating in the city. The dynamiting was promptly disclaimed and condemned by the strike leadership, presumably lacking in "stomach for the class struggle."

Anyone who has studied communist literature can identify the inspiration of this Portland *"All Union Caucus Bulletin."* It is a rewrite, cleverly adapted to the Oregon scene, of instructions given in Lenin's famous pamphlet on *State and Revolution.*

The Bolshevik leader wrote this manual during the summer of 1917, while Trotsky and his other lieutenants were completing arrangements to overthrow the tottering Kerensky regime so that communism might take over.

Lenin, whose arrest had been ordered, was in hiding on a farm near the great city that now bears his name. He was sure that communism would win in war-stricken Russia and wanted to write a handbook to forward its universal triumph. *State and Revolution* has served that purpose ever since and no book, other than the Bible, has ever been translated into more languages.

The critical stage for communism, Lenin argues, comes after the capitalist system has been "softened up" by state intervention and governmental welfare measures of the "cradle to grave" variety. When they have been accepted, the final step is "armed organization of the population," to be spearheaded by labor unions whose membership has been inflamed by deliberately incited industrial disputes.

All this, says Lenin, should be done in the name of "democracy," because the word implies majority rule at the expense of minority rights. Mass demonstrations, especially if they include women, children and adolescent students, will give the impression that strike sympathizers are much more numerous than the few who oppose the tactics of class war.

But "at a certain stage in the development of democracy" there comes "an opportunity to crush, to smash to bits, to wipe off the face of the earth the bourgeois state machinery—even its republican (i.e. American) variety."

• • •

It is doubtful that many of the Portland newspaper strikers have ever read *State and Revolution,* for if they had they would scarcely let themselves be cat's-paws for the Reds. It seems certain that there has been no connection whatever between the strike leadership and the *"All Union Caucus Bulletin,"* despite the latter's effort to give itself a semblance of authority.

But equally unquestionable is the fact that a dedicated communist group, with sizable funds at its disposal, has seen in the Portland strike what Lenin called "an opportunity." This effort "to smash to bits" is not to be taken too seriously. It is, undoubtedly, merely an experimental foray on which the FBI has already acquired full information.

Neither should the episode be taken lightly. For it points up two deficiencies in our thinking which must please Comrade Khrushchev. One is the belief that the Defense Department alone can safeguard us against communism while the Post Office Department allows its incendiary propaganda to pass through the domestic mails. And the other is the practice of regarding communist infiltration in any other country as front-page news, but unworthy of consideration when operating here at home.

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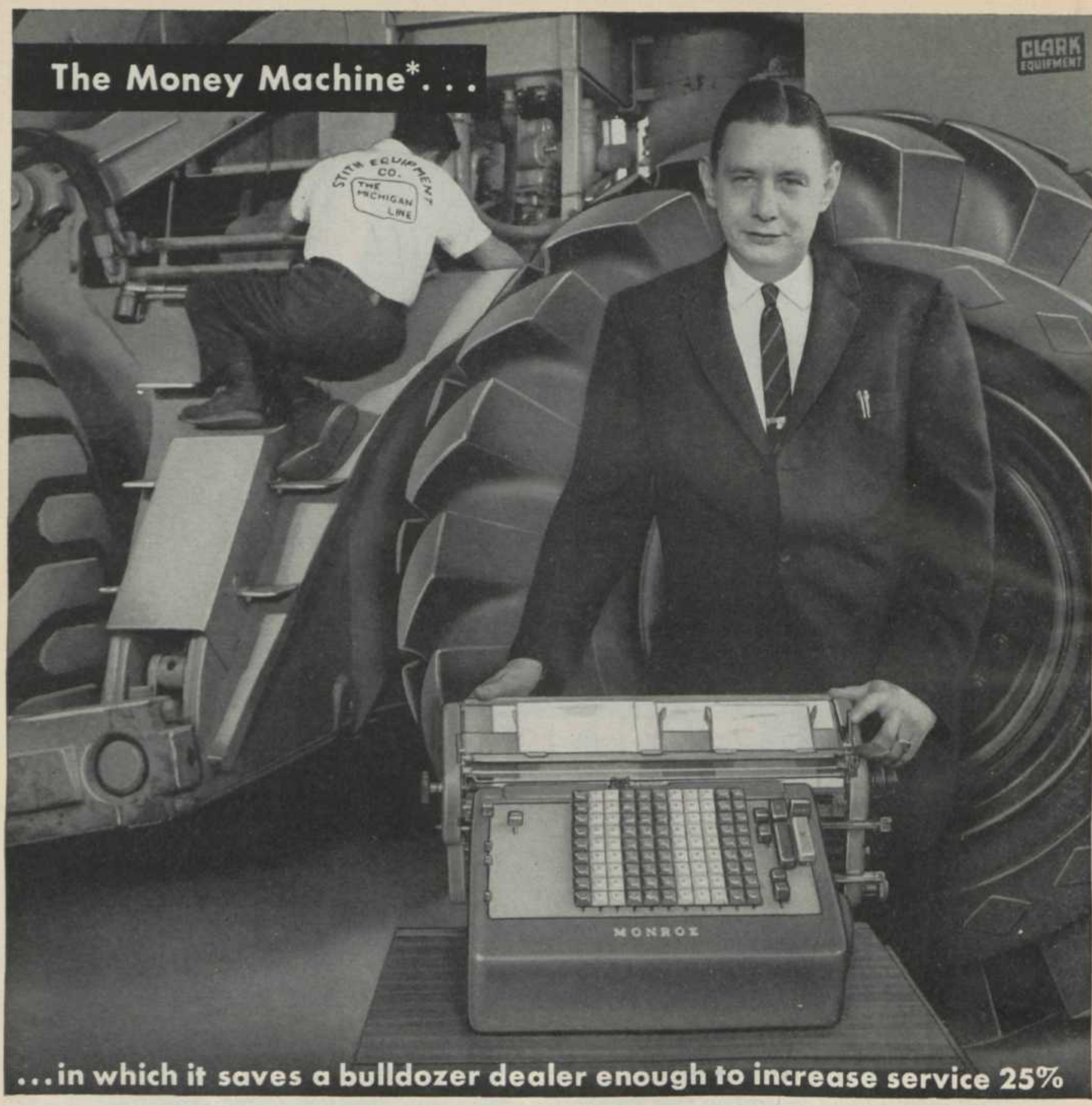

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Next President will be a career politician

BY EDWARD T. FOLLIARD

THE ONE CERTAINTY about the 1960 presidential election is that the winner will be a professional politician. There is no man in the race who could say, as Gen. Dwight D. Eisenhower said in 1952, "I am a novice in politics." All of the major contenders are career politicians who got where they are through hard campaigning.

This means that strategy and tactics, not hero worship, are likely to be the big factor in this year's campaign. Conceivably, the White House could go to the nominee with the greater political skill.

On the whole, the United States has been fortunate in its Presidents, but victory has not always gone to the candidate with virtue on his side. Neither has it always gone to the one whose election would have been in the best interests of the United States.

There have been times when the outcome of a presidential election has been determined by blunders, clever stratagems or hard campaigning, and times also when a slogan has meant the difference between victory and defeat. Thus, in the hair-raising election of 1916, Woodrow Wilson triumphed over Charles Evans Hughes with the catchwords, "He kept us out of war." The inference was that President Wilson would continue to do so, but a month or so after his inauguration for a second term this country was at war with Germany.

Naturally, the Democrats hope that the man they nominate for President at Los Angeles in July will be a fighter and one well grounded in political warfare; indeed, they feel that they must have such a man.

This is because they regard Vice President Richard M. Nixon, the prospective Republican nominee for President, as a master politician. They may not like or admire him, but they agree that he is among the tops in his trade and will be a formidable campaigner.

What are the distinguishing marks of a really smart politician?

There are a number, but among the most important are: a willingness to work hard, courage, audacity, and a determination not to take anything for granted until the votes are in. Vice President Nixon surely qualifies on all of these counts. In a press conference at Sacramento recently, he had this to say about the battle ahead:

"I expect the campaign to be a close, hard-fought contest. I think the Republican candidate can win, but we will take nothing for granted.

"It will be no 1948. We will pay attention to only one poll and that is the one on Election Day."

The Californian was saying in effect that, unlike Thomas E. Dewey, who spoke in lofty generalities and platitudes in '48, he will be specific and talk to the voters in plain language that will mean something. Whereas Governor Dewey suppressed his natural aggressiveness and refused to mix it up in a rough-and-tumble with President Harry S. Truman, Mr. Nixon will be ready to leave the high road and engage in a slugging match if the other fellow wants it that way. Whereas Governor Dewey assumed from the Gallup Poll that victory was in the bag, Mr.

ACME

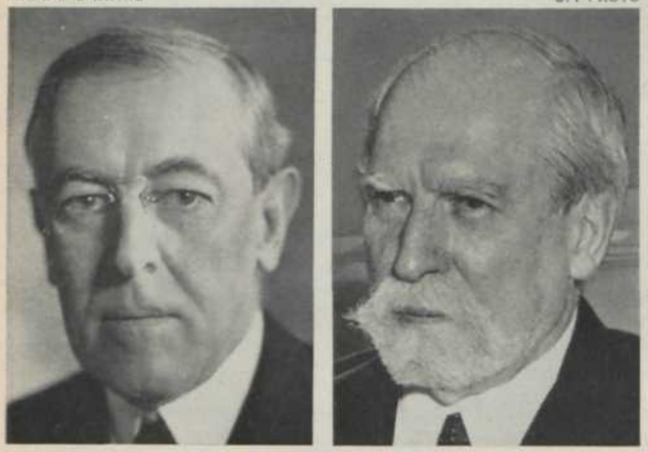
Whistle-stop campaigns are grueling work but Mr. Truman proved their effectiveness

Nixon will avoid all such assumptions and battle right down to the wire.

Mr. Nixon is not only going to run scared; he is expected to revive the old-fashioned campaign train and hit the whistle-stops, as Mr. Truman did so effectively 12 years ago. This would mean the hardest kind of work, with rear-platform speeches all day long and then a major speech before TV cameras in some big city at night, with the routine repeated the next day and the next.

Yes, campaigning like this would be something of

HARRIS & EWING UPI PHOTO



Slogan "He kept us out of war" played big part in Wilson's 1916 victory over Hughes

an ordeal, but the Vice President agrees with Mr. Truman that a contest for the office of President is "a championship fight and nobody deserves to win it running away."

"Political success comes from a combination of hard work and breaks," he told Earl Mazo, author of "Richard Nixon, a Personal and Political Portrait."

"But unless you have the guts to take chances when the breaks come your way, and the determination and stamina to work hard, you will never amount to much more than a political hack and a perennial also-ran."

The Vice President has no use for play-it-safe politicians who are afraid to take a stand on controversial issues. He thinks his party relies too much on advertising experts. He told Mr. Mazo:

"There are many who believe, particularly with the advent of television, that the most effective way to win is for candidates to have a public-relations outfit take a scientific poll of what issues interest the public and then avoid all which are controversial and speak out only on those which are what they call 'safe.' . . . What I believe, however, flies straight in the face of the advice of most of the public relations experts because most of them to whom I have talked throw up their hands in horror whenever a candidate suggests that he might take a strong position on an issue before they are sure that overwhelming opinion is already in favor of his stand."

He thinks that just saying what a public relations man wants you to say might win on occasions, but as he told Mr. Mazo:

"It is wrong because in the long run it not only will not win, but more important than that, I think in the long run that type of approach would be catastrophic for the country. Speaking as a Republican—and I would say the same if I were a Democrat—I think it would be catastrophic for our major parties if a majority of the leaders adopted that weak and spineless approach. . . . If you believe in certain principles of government, you have to take chances, you have to be willing to sacrifice yourself if necessary."

Vice President Nixon knows, of course, that he will have to run on the eight-year record of the Eisenhower Administration of which he has been a part. He says he will be happy to do this, but he also makes it clear that he will be no standpatter.

Already he has begun to combat the arguments being made by Senators John F. Kennedy of Massachusetts and Hubert H. Humphrey of Minnesota and other Democratic candidates for the presidency. The essence of these arguments is that, under President Eisenhower, the United States has not made the progress it should have made in the face of Russia's gains in the military, scientific and economic fields—that we have had seven years or more of "drift . . . of falling behind."

Mr. Nixon stoutly defends the Administration's military program, but says he would never settle for the United States being "second best in anything." This has been interpreted to mean that he would move faster than General Eisenhower in the defense and space race with the Soviet Union.

A keen student of politics, Mr. Nixon knows that one of the big reasons for Governor Dewey's defeat in 1948 was anger in the farm belt, occasioned by the sharp drop in the price of corn and inadequate storage space. Accordingly, he has promised "a complete overhauling of obsolete farm programs under which prices farmers receive for major farm products continue to go down."

What kind of President would Mr. Nixon be?

Biographer Mazo says that "he would be perhaps the hardest-driving Chief Executive and the most controversial since Theodore Roosevelt."

There is a strong probability that the Democrats will continue to hold Congress after the November election even if Mr. Nixon captures the presidency. Republican strategists acknowledge this privately, pointing to the huge majorities the Democrats now have on Capitol Hill: 65 to 35 in the Senate, 279 to 152 (and six vacancies) in the House.

Have the American people been content to have the Republicans control the White House and the Democrats control Congress? And are they likely to continue being content with such a situation?

It worries Democrats to think that this might be the case.

Vice President Nixon also has a worry. He thinks his candidacy for President could be badly hurt if, along about the middle of October, the Russians should do something spectacular in the scientific field—put a man into space, say, or land some astronauts on the moon.

New techniques for raising cash help businessmen to solve problems

CASE HISTORY #858

"Family Company" Provides Famiiy Protection

Four stockholder-employees wanted extra protection for their families. How could their company provide it?

In an actual case*, these four businessmen, who were brothers, solved this problem with an Equitable Employee Death Benefit Plan.

First, the corporation agreed to pay $5,000 a year for five years to the widow of any brother who died while employed. To make this possible, the corporation purchased a $25,000 Equitable policy on the life of each of the four men.

The widow would receive a substantial death benefit income with $5,000 excluded for income tax purposes, the balance being reportable.

Any insurance death benefits that the corporation receives are income-tax free. And payments to a widow are deductible. The net result may well be an overall gain.

CASE HISTORY #1258

Owners Preserve Ownership

These businessmen figured out a way to keep control of their company—and to get more family protection, too.

In an actual case*, the five stockholders of a small manufacturing company solved the problem with a Personal Insurance Rider to corporate-owned insurance.

The corporation purchased a $75,000 Equitable policy on the life of each of the five stockholders. If one of them died, the company would be able to buy his stock—even though the company's capital were tied up in equipment and inventory—and the survivors would retain ownership of the corporation.

At the same time, each stockholder-employee wanted more individual protection for his family. This was provided through a Personal Insurance Rider to the corporate-owned insurance. *And the corporation pays the rider premiums as additional compensation.*

CASE HISTORY #158

Teen-agers Get Corporation!

Father wanted the family corporation to be in good shape when his teen-age sons were ready to take over.

In an actual case*, the problem was solved by a trust plan and Key-Man Insurance. The father was 51. His sons were 15 and 12. If he were to die before they were ready to take over, the stability of the company could, possibly, be impaired.

The father decided to set up a trust by his will to run the business until the youngest boy was 27.

The company required enough funds at the father's death apart from business income to pay off notes of about $35,000 and to pay a good manager $20,000 for at least two years and to offset a brief company decline following the father's death.

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- ☐ #1258—*Owners Preserve Ownership*
- ☐ #158—*Teen-agers Get Corporation*

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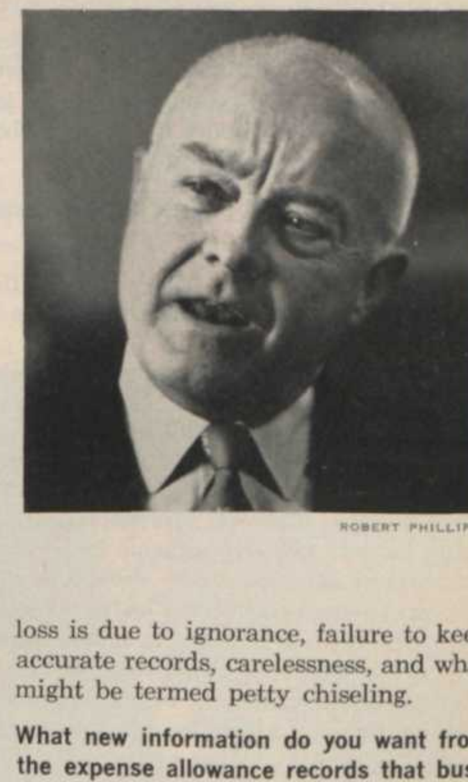
See David Wayne, Judith Anderson, Eddie Hodges, and Neva Patterson in "Millionaire's Mite" on OUR AMERICAN HERITAGE, Sunday, April 10, NBC-TV

More audits: Tougher tax collection coming

A NATION'S BUSINESS INTERVIEW WITH COMMISSIONER OF INTERNAL REVENUE **DANA LATHAM**


ROBERT PHILLIPS

THE TAX COLLECTOR is bearing down.

Internal Revenue Service is assembling more men and machines to hunt out missing revenue. From now on your expenses and your income from all sources are likely to be under closer scrutiny.

A real tax crackdown? NATION'S BUSINESS editors interviewed Internal Revenue Commissioner Dana Latham to find out, and to learn how the agency plans to bring in extra tax dollars. Here's the story straight from the tax collector:

Mr. Latham, is Uncle Sam really losing a lot of revenue through ignorance or evasion?

We think the total is substantial, yes.

Just where is the money being lost?

It is impossible to break it down accurately. We have many reports as to the amount of income which should be reported but isn't. The total might reach \$25 billion. That does not mean it is all subject to tax. Deductions, exemptions and similar items might offset a substantial part. In addition, in any taxing system as large as ours, you simply cannot hope for perfection.

I do think that the amount lost through fraud is not as large as many people believe. I think the principal loss is due to ignorance, failure to keep accurate records, carelessness, and what might be termed petty chiseling.

What new information do you want from the expense allowance records that businesses are going to have to keep, starting this year?

Corporations, partnerships and proprietorships will be required to report the expense account allowances paid to their top people.

Corporations will also have to report on any deductions claimed for the costs of hunting lodges, farms, fishing camps, rental or ownership of a hotel room or suite, attendance of officials' families at conventions or meetings, vacations for officers or employes and the use of a yacht or boat to entertain customers.

We are also demanding that companies set up standard accounting procedures so we can check more closely

on expense account allowances. We are not requiring, in the normal case, any new record-keeping by the employe, provided he makes what we call an adequate accounting to his employer for his expenses.

From the information reported by employers we will determine whether we should make an audit and whether anything should be charged back to the employe. In other words, this is information upon which we will act. There normally would be no effect upon the tax liability of the employer as the result of providing this information.

In this expense-account approach, we are not seeking to disallow expenses by the employer. We are not going to say, "Well, now, your salesman who has a legitimate customer must take him to lunch at a sandwich stand instead of the 21 Club." If they want to spend $7 or $8 for lunch as opposed to a dollar, that is their business. But we don't want the salesman to take his family to lunch and charge it as an expense. Even if he did that, in most cases we would not disallow that to the employer. We would charge that as an additional compensation to the employe and require him to report it. That is the basic aim of this expense-account approach.

This new report would not get at this particular salesman, would it?

We feel if you do not have abuses with respect to the top people, you undoubtedly will be unlikely to have them lower down.

We obviously can't examine, and don't intend to examine, everybody in the United States; furthermore what we call acceptable accounting practices between the employer and the employe will cover the type of situation just mentioned. In other words, the employe must make a reasonable accounting. He doesn't have to give every nickel for a newspaper and every taxicab fare and every shoeshine when he presents an expense account, but he has to give something that will indicate a reasonable arm's length approach between the employer and the employe. If we don't find what we consider to be acceptable accounting practices, then we will be required to turn to the employe to find out just what happened.

Haven't you ordered your field offices to look more sharply at entertainment and other business expense deductions?

That is true.

Is this part of a real tax crackdown?

We don't call it a tax crackdown. It is part of a program of continued enforcement in a troublesome area and a stricter enforcement than has been true in the past. We have, in effect, been forced into it by what seems to us creeping and increasing abuses. Our regulations as to what should or should not be done have been the same all along. We are requiring this new information to give us better information upon which to act.

One thing I want to make clear in the expense account area: There are two major factors. The loss of revenue is only one. The other, an equally important one to us, is the fact that many people who do not have these fringe benefits resent that those who do enjoy them, do so tax free. To maintain a proper balance is basic in our whole enforcement system.

Congress appears to be refusing to give you all the new people you want. Have you lowered your sights from 25,000 additional personnel in five years?

The only thing we presented to Congress was our fiscal 1961 budget, which contemplated the addition of less than 3,000 people to our rolls.

The President, in his budget message, said we hope to increase our enforcement coverage, that is, the percentage of the various returns in various categories which we examine.

We have a program which is part of our automatic data processing that may run five to eight years before completion. Put it this way: We have no set program that is not subject to constant change.

Also bear in mind that we had on our rolls at the end of last year 4,000 fewer employes than we had in 1952 and almost 9,000 fewer than in 1946. So we are not building up what many people term a huge bureaucracy. We are not seeking an army of tax

ROBERT PHILLIPS

"We'll audit about 200,000 more returns than last year and step it up in the future"

snoopers. But our work load goes up an average of three per cent a year. We are doing more work, collecting more money and auditing more returns with substantially fewer people, and we have simply got to rebuild our strength to meet this increased work load.

Do you have a long-range hope of combining your enforcement personnel with your electronic data processing equipment to audit and process more efficiently?

We presently hand process—that just means opening the envelopes, taking out the tax return and the money—about 95 million returns a year, and we have hundreds of millions of related pieces of paper that also have to be taken care of. The sheer task of doing that is beyond manual capacities.

In connection with that, we operate offices all over the United States. We set up an account for a taxpayer in a given area, and the taxpayer being human forgets that we will not have a record of his return every place in the United States. He may file here, pay a tax there. The problem of maintaining these accounts, balancing off the liabilities, the credits and the debits is gigantic. When all the electronic data processing equipment is finally installed, we will have the taxpayer's account on tape in a central computer area. We will also have other equipment in our various district and regional offices. So, if we want to locate a taxpayer who used to file his return in Chicago but now files his return in, say, Los Angeles, we will just ask our computer center to forward details of that taxpayer's account, and there it will be.

As these returns come in, we will put the pertinent information immediately on that tape. For each taxpayer we will have a running permanent account for all types of taxes.

How will a businessman ten years from now pay his tax? Will he have a punch card, for example, no matter how high his income bracket is?

We haven't gone that far yet. He would continue to file his return as heretofore, although we might combine a half dozen states in one filing area. We will add pertinent information contained in returns to the master tape which indicates his past record and from that we will determine whether or not his return should be audited.

How many tax returns will you audit this year?

In 1960 we will probably audit about 2.7 or perhaps 2.8 million. That is not as small a percentage as it seems. Some 40 million of the returns filed are on the short form card return *(continued on page 71)*

EDWARD BURKS

ROBERT PHILLIPS

"We're demanding standard accounting procedures and closer checks on expenses"

"We are not seeking an army of tax snoopers, but we must rebuild our strength"

UNIONS WILL DEMAND NEW RIGHTS

technical changes +

Labor relations will be influenced by trends getting under way. These are the results that you can expect:

YOUR COMPANY will have a better chance to gain from the economic growth predicted for the current decade if you are ready to deal with the changes in labor relations this growth will bring.

The nature of these changes becomes clear once we probe a little deeper into the forecasts already made for the 1960's. The population, now about 180 million, will rise to about 215 million by 1970. The labor force will rise from today's 72 million to about 87 million.

Record-breaking expenditures for technological research and development make probable a potential annual increase in output per man-hour of at least two and one half to three per cent. All of these forecasts are based on the assumption that the decade will be one of seeming peace, perhaps of easing international tensions.

If events verify these predictions, then you can expect these three consequences:

- ▶ Technological job shifts and unemployment.
- ▶ A decline in union membership.
- ▶ A basic shift in the function of unions.

Job shifts

During the past decade, we witnessed vigorous growth in total population. But we had less than proportionate growth in the number of people of working age and of the labor force (all persons at work or seeking work). The reason for this is the bubble in the population pipeline introduced by the low birth rate in the 1920's and 1930's.

This bubble now has had almost full effect. People entering the labor force today are the first of the war babies, born in the early 1940's.

In the past year the net increase in the work force was about 700,000, or less than one per cent. A decade hence the annual increase will be about 1.5 million, or close to two per cent. For the past decade the average age and experience of the labor force has been rising. In the next decade it will fall as hordes of youngsters clamor for jobs.

Moreover, the years ahead will see rapid technological change and consequent productivity increases. When we couple rapid productivity increase with a rapid rise in the labor force, a very rapid rise in the demand for goods and services will be needed if the labor force is to be fully employed.

This will require continued, indeed increased, efforts by businessmen to expand their own operations and hence the total volume of business activity, employment, and income. There are several reasons, however, for believing that this decade may present more than the usual obstacles to achievement of this objective.

First, in the past 15 years, a significant portion of rising demand has been financed by increases in consumer debt and in residential mortgage debt. Total consumer credit outstanding has risen from \$6 billion in 1945 to nearly \$50 billion today. Residential mortgage debt outstanding has risen from \$28 billion in 1946 to nearly \$150 billion today. Neither of these types of debt has reached or perhaps even approached its aggregate limit relative to total income. But, as an increasing number of family units approach their individual limits, further increases in the ratio of debt to income become less likely.

Second, both in the 1940's and the 1950's our economy was strongly stimulated by war expenditures and by war-induced consumer expenditures. For the next several years at least we can imagine a period of seeming peace. Defense expenditures will no doubt continue to be high. But defense costs are likely to continue to shrink as a proportion of our country's total volume of business, or gross national product, as they have for several years.

Moreover, in the first postwar decade, European demand for U. S. products was strong. Today, European countries are producing not only for their own needs but also for other U. S. markets abroad and for the market in this country.

Another obstacle to rapid expansion of demand is the cost-price structure that our economy has acquired in recent years. Over the past two or three decades, an increasing portion of costs has acquired a marked downward inflexibility. Wage rates, especially in unionized industries, are rigid. So are many other business costs. Especially in manufacturing, increasing mechanization has raised sharply the ratio of fixed costs to variable costs. When costs, such as salaries for personnel, are fixed in total amount, a temporary decline in demand or a shift in demand away from a product results in rising costs per unit. It is difficult, in these circumstances, for management to lower prices to sustain volume.

There's no such built-in bar against price rises, which are tied to supply and demand.

Consequently, in our economy prices go up much more easily than they come down.

In this kind of economy, public policy makers are in a quandary. The only available tools for curbing the inflationary consequences of this upward price bias are restraints on aggregate demand through monetary and fiscal policy. But restraint on demand for anti-inflation purposes would be just what we do not need for employment purposes.

Actually, we are not likely to go to extremes in either direction. Political attitudes and pressures are so nicely balanced that we are likely to compromise: To restrain demand, not enough to stop inflation completely but enough to inhibit job-creation. The result is likely to be an unemployment problem which will vary from industry to industry. It will hit hardest in those industries where technological change (chiefly mechanization and automation) proceeds apace, notably manufacturing and agriculture. Today manufacturing employs six per cent fewer persons than in 1953. Agriculture employs 10 per cent fewer (employment in agriculture has been declining for decades). Some segments of the economy, however, such as education, government, and the recreation industries, may experience labor shortages. While some regions of the country will suffer unemployment problems, others won't know what the unemployment fuss is all about.

People with highly developed and nonobsolete skills will be in lively demand. The boy without much education, the youngster leaving the farm, the oldster who has been displaced by a machine, may have to wait a long time before a job comes along.

The problem may take the form of a shift of youngsters (and some oldsters) to low-paying, low-productivity service industries, thus enabling these industries to expand their importance in the economy.

To the extent that this happens, technological unemployment will take the form of underemployment. Productivity gains for the economy as a whole will be lowered. This drift into low-productivity industries is not an idle hypothesis. According to a recent staff report of the Joint Economic Committee, it has been a very real phenomenon in recent years.

We have had technological unemployment before. There are probably a million technologically unemployed persons in the United States today. In this decade, their numbers may rise substantially. This will have a substantial effect on the power and role of unions.

Decline in union membership

The appeal of unions has been almost entirely to hourly wage workers. With a few exceptions, efforts to unionize salaried employes have met with little success. The salaried worker has a sense of security. He feels that a certain measure of certainty attaches to his paycheck. If he is late to work, or takes time off to attend a funeral, his pay is not usually cut. Moreover, his superiors, including the company president, are on a salary, too. The salaried employe is in the same class, broadly defined, as the employer. The ladder of success lies not in open conflict but in the direction of salary increases that come from performance and a satisfactory relationship with the salaried worker immediately superior to him.

The hourly wage worker, on the other hand, feels little sense of security. On the contrary, he is likely to feel a need for protection by a strong union.

In the past 10 years, nonfarm employment of professional and semiprofessional workers, proprietors and managers, sales and clerical personnel increased by 23 per cent. Employment of craftsmen, foremen, operatives and laborers increased by only six per cent. Within manufac-

(continued on page 116)

KEY MEN NEED MORE THAN PAY

These five noncost incentives can produce fruitful results

EVERY MAN, no matter how great his talent or ambition, needs periodic encouragement and inspiration if he is to deliver his best effort.

Incentives are, therefore, matters of serious concern to management.

There is no question that a higher salary or a bonus is the super-stimulus that spurs people to do better work.

But higher pay is not always practical or possible.

One of the strongest basic drives in man is his desire for recognition. This motivation lends itself to a variety of incentives for executives—incentives which will produce fruitful results.

Here are five categories of noncost incentives worth trying:

1. *Participation in the making of decisions.*
2. *Adding responsibility.*
3. *Special projects.*
4. *Opportunity to be heard.*
5. *More prestige in the job.*

Participation in decision-making

Procedures in policy-making and decision-making vary from company to company. In most cases, however, these procedures have one element in common:

They involve more than a single executive.

Sometimes the opinions of various men are brought to bear on a problem, one at a time. Sometimes the opinions are solicited by means of a group discussion. Consideration of certain matters must of necessity be restricted to a handful of individuals. Other matters can be more widely reviewed and discussed.

It is apparent that the decision-making, policy-making process has a substantial degree of flexibility. The circle of advisers, contributors, and participants can be widened from time to time. This makes decision-making a potential recognition tool. You can enhance a man's estimate of himself by occasionally seeking his opinions about a matter awaiting a decision.

The man who receives an invitation to participate in the formulation of a company policy or in making an important decision is paid a major compliment.

Though the compliment cannot be measured in dollars, it is valuable to the recipient.

This noncost incentive can be utilized many times. Hardly a day goes by in almost any business in which major and minor decisions are not called for. It is not suggested that executives Tom, Dick and Harry be invited to give their views on every matter. But some pleasantly surprising attitudes will be visible if Tom, Dick, and Harry are asked to give their opinions every once in a while.

Try this method the next time you face a decision that doesn't have to be reached on the spur of the moment: Scan your executive personnel list. Select a man who would not ordinarily be invited to express his views on a particular subject. Solicit his opinion in a face-to-face conversation. Or ask him to take the problem back to his office for consideration. Watch your man's reactions. If you have ever believed that money is the only incentive in an executive's life, this test will shake that conviction.

The same objective can be accomplished through meetings and conferences. On occasion, for example, it is exceedingly effective to invite into a high-level conference an executive who does not ordinarily attend. If this individual can be given some specific role—a report on some aspect of the problem with which he is familiar—the incentive is greater. But even if he attends only as an observer, he will feel flattered that he has been included in a select group.

In using this noncost incentive, the objective is to stimulate the executive in question. But at the same time you may achieve an unexpected result—the discovery of some hidden decision-making talent.

Kept within reasonable bounds, the noncost incentive of giving an executive greater participation in decision-making will provide him with inner satisfaction that money can't buy.

Adding continuing responsibility

Here, for an example, is the vice president of a leading furniture manufacturing concern. His experience with the company during 17 years has been in production. He is conscientious and energetic. His efforts on behalf of the company have clearly been fruitful. Unfortunately, the present economic situation doesn't permit a sizable increase in his salary.

But let us examine another possibility to meet this situation. Our man is a busy executive. However, he is kept busy with tasks that he has been carrying out for more than five years. He takes his assignments in stride. He has mastered most of the difficult problems in this present assignment. Thus, busy as he is from day to day, his mind, his spirit and energy could conceivably be challenged anew by fresh problems in another field.

Give this man an added, continuing responsibility.

Ask him to devise a training program for new men without former experience in furniture-making, to put the program into effect, and to supervise it. The busier he was before, the happier he is likely to be with the new challenge.

The recognition of an executive's ability via this noncost incentive does not run in a straight line to his pocketbook. Yet it will probably have an equally worth-while effect on his morale.

The added responsibility cannot be synthetic. It must be real and important to the organization. It must

be the kind of assignment that earns for the recipient the respect of his colleagues and of his subordinates. Furthermore, the recipient must believe that the new assignment is a significant one. It must produce this sort of reaction:

"The president has given me an added job—it's a real feather in my cap because it is obvious that only a top man could be asked to take this on in addition to his other work."

Obviously this noncost incentive cannot be granted lightly or extravagantly. Only an executive with great potential can handle an additional continuing responsibility. When the right man needs a stimulus and money is not the answer, this could be the right incentive.

Special projects

Often it is not possible to give an added continuing assignment as an incentive. This does not rule out a related alternative, the special project.

Here is an example. The executive vice president of a corporation with nationwide interests recognizes a need for visiting one of the firm's regional offices. This trip will require several days. His first inclination is to go himself.

Upon reflection, he is aware that some other qualified executive in the company could make the trip and probably accomplish the same result. He thinks of one of his subordinates, who has been doing an excellent job in the office but who has never had the opportunity to make a fact-finding trip for the company. The cost of the trip will be borne by the company no matter who makes it. But if the subordinate goes, the company gets a by-product. The trip will provide an incentive to a hard-working executive.

Accompanying a principal executive on a mission can also act as an incentive. For example, a typical week of a corporation president includes a number of important missions outside the office. Some of these are out of town. Some are local but in the offices of other concerns. In either case, there is the possibility that one of the company's top executives could be of assistance—not only in preparing for the visit, but in accompanying the president.

Ask a man's opinion
and you will build
his self-esteem

Note that recognition is again the key in the special project type of incentive. What officer in a company is not pleased to accompany the president? This is particularly true when the person chosen can contribute something of value.

In this same concept, it is worth while to remember the pride that an executive feels when he is selected to act as the official representative for his company.

Let us say that a metals corporation with a number of overseas divisions must occasionally play host to representatives of those divisions visiting this country. The general manager of one of these divisions is a national of the country where the division is located. He is planning to spend several weeks in the United States for business reasons. The situation is a natural for handing a noncost incentive to one of the home company's officers.

Give a particular executive the chief responsibility of playing host during the visitor's stay. To a man who has always had this particular kind of responsibility, the chore may be routine. To another, the assignment may be a vigorous incentive.

In almost every business organization it is necessary to conduct a review of procedures in one department or another at various times during the year. Or it may be desirable to review a particular company policy. Assigning a discerning executive such a survey is another way of offering a noncost incentive. The job will invite the executive's critical judgment, give him an opportunity to make constructive suggestions, stimulate his interest.

Go over the special projects you have been wanting to start at the first opportunity. Then look over the executives in your company. Choose the man who is qualified and who would jump at the chance to win added recognition for his efforts.

An opportunity to be heard

There are many strong, silent executives who yearn for the moment when they may indulge in a little less silence. Therein lies an opportunity for action on the incentive front.

A face-to-face talk with one of the company's principal officers has a salutary effect on a subordinate. Enough time should be set aside so that the session has an out-of-the-ordinary atmosphere; the talk should have a little bit of feet-on-the-desk flavor. This kind of noncost incentive is particularly powerful when such meetings are rare.

The following example illustrates
(continued on page 112)


GARAGE
BUS

REBUILD YOUR CITY THIS BETTER WAY

Doing job locally has three advantages over federal aid

CITY PROBLEMS can be solved better, cheaper and more quickly without federal help. Indianapolis is convinced of this.

That city refuses to ask for or accept federal aid for the kinds of local improvements which prompt officials of so many communities to run to Washington for assistance.

The Indiana capital is using its own money to clear and rehabilitate slum areas, to control its river and creeks against floods, to build hospitals. No public housing has gone up in Indianapolis in 25 years.

Mayor Charles H. Boswell, a Democrat, explains why.

"By attacking these local problems ourselves," he says, "we avoid all the red tape that is involved in seeking federal funds. Besides, cities must take more responsibility for their own improvements if we are ever going to reduce the federal budget."

A leader in Indianapolis's redevelopment program, Paul L. McCord, local businessman, adds: "By doing things ourselves, we have more freedom, we save money, and we get what we want—not what somebody in Washington wants."

Warning that federal aid means federal control, William H. Book, executive vice president of the Indianapolis Chamber of Commerce, says, "These are our problems. We must stand on our own feet in solving them. We shouldn't expect help from the federal government, which has its own problems."

On flood control, Indianapolis is spending $20 million as a start. It refused to join other Ohio River valley cities in asking federal funds for various river improvements. Floods, in Indianapolis at least, are viewed as a local problem because their control will help only Indianapolis.

"Even if we had sought federal aid," Mr. Book says about the flood control project, "there was no assurance that it would be granted—or when. We have evidence that we can do the job better and faster on our own."

When the city needed 800 more hospital beds and other hospital facilities, businessmen helped raise $12 million to provide them without federal assistance that was available under the Hill-Burton Act.

Indianapolis also refuses to share in federal subsidies available for school lunches and for vocational training in the distribution industry.

What the city seems proudest of, however, is its home-grown slum clearance and rehabilitation program now in its sixteenth year.

Through this program, Indianapolis is using tax and bond money to prevent and eliminate blight, improve land use and values, increase tax revenues, preserve the central city, cut municipal expenses, improve health and safety, provide better housing.

Following a master plan, the city is redeveloping or rehabilitating 543 acres of downtown land in 10 separate projects. Four have been completed. Money spent through 1959: $5,583,700. Against this cost, there has been a return of $2,177,900 from rentals and sale of cleared land. Increased property values will also bring the city more tax money.

The redevelopment program was a product of planning which began just before the end of World War II. The mayor's Postwar Planning Commission, as in many other cities at that time, was concerned about the forecasts of heavy unemployment "when the boys come home."

The Commission's housing committee, headed by Mr. McCord, recommended slum clearance as an opportunity to provide jobs as well as improve housing conditions. From its study of the slum situation, the committee concluded that it would be good business for the city to buy the properties in the worst areas, clear them, redevelop them, and resell them for new and

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Controls and red tape that go with federal aid slow redevelopment, says Paul McCord, leader in Indianapolis plan

Mayor Charles Boswell urges sending less money to Washington, keeping more at home, to help cut federal budget

Your Legislature may authorize a Redevelopment Commission to do the job. John W. Coffman runs one in Indianapolis

HOW TO SELL THE NEW MASS MARKET

Blue-collar workers are now the biggest buyers of many luxury goods and services

TODAY we are witnessing a new consumer sales phenomenon.

Unceasing wage increases, easy credit and a totally new sense of security have combined to stimulate a vast new market for almost all kinds of goods. But this market cannot be reached with the old appeals. Those who make goods or sell them need to abandon or at least alter some ideas that have become traditional.

Formerly it was easy for the economist to grade people on an income basis and assume that the white-collar people and business and professional people were the best—often the only—market for many products. Now surveys in metropolitan Chicago—which indicate a national condition—show that the income of the average skilled blue-collar worker is equal to that of the average white-collar worker. What's more the elite of the skilled blue-collar groups earn considerably more family income than the average white-collar worker and the intelligentsia. Particularly do they have more choice in spending it.

A broad-scale study just completed reveals that the largest purchasers of jewelry and watches are those in the skilled and semi-skilled worker group.

Similarly, a recent study of the buying of fur coats and stoles showed the largest group of purchasers to be this blue-collar class. The first, second, fourth, fifth, sixth and seventh stores in order of their fur sales were all specialists in reaching this market. The significance is that furs were always heretofore considered a luxury item.

We have recently done concentrated studies on the sales strategy of a new-car dealer who has turned up a market which was never thought to exist before. These new-car purchasers are primarily unskilled workers. For 92 per cent of them, this was the first new car they ever had owned. Of the group, 16 per cent were illiterate. This dealer's leading salesman can neither read nor write.

The customers of another new-car dealer typically include a "ready-mix concrete truck driver" with a family income of $13,600 annually.

Construction workers, printers, almost all of the skilled worker group are prime customers for almost any kind of goods and services.

The average milk driver in Chicago, for example, earns around $9,000. Those who call on the chain stores are classified as wholesale sellers, bringing their income up to about $18,000 a year.

A recent study of the whole field of savings in metropolitan Chicago showed more families with savings accounts in banks and savings and loan associations in the blue-collar group than any other. Banks from one end of the country to the other are changing their strategy to appeal to this market which helped the savings and loan associations grow so rapidly.

Not only do these people have money to spend but they far outnumber the white-collar workers. On the basis of census studies, we find that 64 per cent of the people living in metropolitan Chicago are in this group. The same proportion holds for innumerable cities.

Here then is a prime market for most goods and services. The problem for business management is how to reach it. The tactics that were once successful for economy market stores are no longer satisfactory because these customers have considerably upgraded their taste through travel, education and the mass media. The retailers who seem to be in most trouble profit-wise are those who are in the most inexpensive end of the market and have not changed their strategy or merchandise.

The appeals formerly used to reach the middle-class market which the blue-collar workers are now invading are equally unsuccessful. These people interpret as rejection the permissive behavior, the low-pressure selling tactics of the top-flight retail stores. Whereas the professional man's wife expects from clerks a certain kind of deference and a realization of her position, this treatment makes the new type of customer feel completely out of place—to suspect that she is being punished by the clerk and other customers no matter how much money she has.

The cold dignity of many banks, for instance, was driving away a great many of their potential customers. In many sections banks have changed their atmosphere so that the skilled worker group will feel more at home. The tremendous growth of personal loan companies and currency exchanges has occurred, not because banks don't offer these services, but rather because the skilled worker felt more at ease in them than in the formal atmosphere of the old-time bank.

For those who hope to share in this new market some suggestions will be useful.

First, don't underestimate taste, judgment of quality, or desire for luxury.

In Roanoke, Va., the largest department store is a new Sears store in an ultramodern shopping center. A & P stores in many areas are

(continued on page 114)

GEORGE LOHR

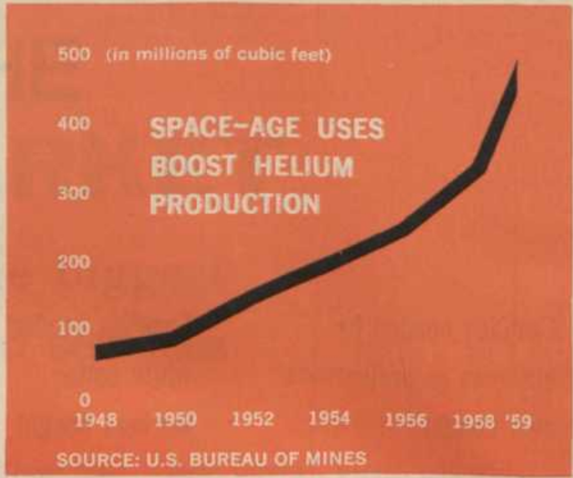
Families headed by business or professional men bought	Families headed by white collar workers bought	**Families headed by skilled craftsmen — who now have high *income, more choice* in spending — bought:**	Families headed by unskilled laborers bought:
21% of new autos	**34%** of new autos	**36% of new autos**	**7%** of new autos
28% of air conditioners	**22%** of air conditioners	**46% of air conditioners**	**4%** of air conditioners
20% of new furniture	**32%** of new furniture	**38% of new furniture**	**9%** of new furniture
27% of jewelry	**32%** of jewelry	**33% of jewelry**	**8%** of jewelry
21% of new watches	**31%** of new watches	**35% of new watches**	**12%** of new watches

For breakdown on more purchases, see page 114.

An authoritative report by the staff of the

HOW'S BUSINESS?

today's outlook



AGRICULTURE

Food prices will probably show little change this year although total supplies are expected to be above the high 1959 level. Per capita food consumption will likely vary little from last year and increased population will bring greater demand.

While per capita supplies of all livestock food products will be about the same as last year, you can look for more pork later in the year. Not much change is expected in supplies of chickens, lard and dairy products.

Among the food crops, the story is about the same, except for dried fruit and frozen fruits and vegetables, which will show an increase.

For a longer range observation, the U. S. Department of Agriculture, in a recent study, suggests that during the next 15 to 20 years per capita purchases of food may increase as much as 15 per cent. Per capita requirements of processed foods for home consumption are likely to be half again as much as those for unprocessed foods. Likewise, the demand for factory processed foods by public eating places is likely to increase.

CONSTRUCTION

The building needs of our rapidly growing towns and cities pose major challenges to the construction industry. Population concentrations are generating unprecedented demands for homes, highways, schools and other new projects. Moreover, urban blight threatening our cities must be eradicated.

Efforts to keep up with needs have often been hampered by uncoordinated and piecemeal approaches.

Construction industry members can lead in comprehensive local programs to solve problems of growth and change.

The establishment and successful operation of such programs is the subject of the "Community Development Series" of the Chamber of Commerce of the United States of America. The series deals with balanced community development, analysis, planning, urban renewal projects, modernizing local government, financing and leadership—the essentials in solving community problems locally.

CREDIT & FINANCE

Congress continues to straddle the issue of sound debt management. Continued delay in lifting the 4¼ per cent interest rate ceiling on new long-term Treasury securities will increase costs in all types of short-term borrowings—governmental, consumer and business.

Plans to allow advance refunding and permit some small portion of the public debt to be financed without regard to the ceiling are not adequate for the huge task of sound debt management that lies ahead.

As to the outlook for 1960 in the credit and finance field, the demand for funds by consumers, business and government continues to rise. Consumer income hit a new record annual rate of $393 billion in January and is expected to go higher in the coming six months. Stability of prices, coupled with this record high income, should prove a sound floor for consumer buying plans. Employment levels are also expected to continue upward in 1960.

DISTRIBUTION

The Consumer Price Index, which measures price changes of about 300 commodities and services throughout the country, has remained relatively stable in recent months.

This stability is largely credited to lower food and clothing costs. Several other commodities and services have risen in price.

Further rises are certain if Congress enacts new minimum wage legislation.

The legislation would boost the minimum wage to $1.25 per hour and extend federal wage-hour controls to millions of additional workers—mainly in retail and service trades.

In addition to higher labor costs (including overtime pay after 40 hours a week), these trades also could be hit by higher costs for supplies and services.

The legislation poses an inflationary threat severe enough to merit the attention of all businessmen.

FOREIGN TRADE

Special efforts by the government and business are necessary if the

stepped-up export promotion program, spearheaded by the Department of Commerce, is to be effective.

An expansion of U. S. exports is not merely desirable but imperative, according to Sen. Warren Magnuson, chairman of the Senate Committee on Interstate and Foreign Commerce. Senator Magnuson has been holding hearings on a broad range of questions affecting the competitive position of American products in world markets.

In 1959 the U. S. trade surplus was whittled down to the lowest level in a decade and the over-all balance of payments reflected a deficit approximating $4 billion.

To help reverse this trend, the Department of Commerce plans to expand its commercial and foreign market information.

Businessmen, in turn, will seek to make better use of these services in their sales efforts abroad.

Trade missions, a cooperative government-business project, also are proving increasingly productive. Under them, business specialists are enlisted to discover and report foreign opportunities in industry, commodity, and economic fields which merit further exploration by individual U. S. companies.

GOVERNMENT SPENDING

With the political conventions scheduled for July, Congress is determined to complete action on all money bills quickly. If the timetable drawn up by the House Committee on Appropriations is maintained, all but five of the expected 15 appropriation bills will have cleared the House by the end of this month.

Of the five bills scheduled for action on the floor of the House next month, two—defense and foreign aid—will command the most attention. As expected, the question of the adequacy of the defense budget has become a center of congressional controversy. It is generally felt that Congress will vote to increase the defense budget, but the situation is quite different with respect to foreign aid.

The Administration has requested an increase of $1 billion for foreign aid in fiscal 1961. Many congressmen not only oppose the increase, but feel that foreign aid should be reduced. In an election year, clashes between Congress and the Administration on both these bills are likely.

LABOR

An important issue involving labor union activities faces Supreme Court review this month.

The court will hear arguments on the constitutionality of union-shop contracts when union funds are used to support political campaigns and to further political and economic ideologies opposed by individual contributing employes.

Earlier, the Georgia Superior Court found unconstitutional those portions of the Railway Labor Act sanctioning union-shop agreements which permit the collection of fees and assessments from workmen for such political use. The state court upheld employe contentions that the use of dues money for other than collective bargaining purposes was illegal. It ruled that compelling workers to pay initiation fees, reinstatement fees, and periodic dues as a condition of employment and for the support of political candidates and doctrines opposed by such employes violated individual and property rights.

Also at stake in the Supreme Court decision is the union right to use contributions to convert workers to political and economic ideologies espoused by union leaders, but opposed by the individual workers.

Should the Supreme Court strike down these union-shop contracts, union use of dues money will be restricted to matters relating to collective bargaining.

NATURAL RESOURCES

The space age has raised sharply the production of helium gas, which is used in smelting high-temperature metals for rockets and jets and in lifting balloons to chart weather and explore the upper atmosphere. The United States is the world's only producer and principal user.

Helium production and sale has been a federal monopoly and the government now wants to conserve the three billion or more cubic feet being wasted each year from natural gas fields in the Southwest.

Legislation before Congress would invite industry to build recovery plants on various privately owned gas pipelines.

Industry may balk at the invitation because the government would be the sole purchaser and could fix the resale price. Under such terms, incentives would be lacking for industrial financing, building, and operating private facilities. Industry participation may be obtained if a bill pending in Congress is amended so that helium production can be subject to some degree of free competition.

TAXATION

Although hopes for major tax reform in this session of Congress lessen as adjournment approaches, significant legislation in selected areas of taxation is not ruled out.

Legislation which would provide tax incentives to stimulate American investment abroad is no longer prohibited.

Another measure, which would postpone taxes on income set aside by the self-employed for old age protection, is gaining support. This measure has already passed the House and is due for Senate consideration. It's reported that the Administration views this principle with more favor than it did originally, and this may increase its chances of passage.

A bill which would amend sections of the Internal Revenue Code dealing with tax treatment of estates, trusts and partnerships is also before the Senate, following House passage. Although the filibuster on civil rights legislation interrupted the Senate Finance Committee's schedule, action on this measure is still probable.

TRANSPORTATION

If the excise tax on passenger fares is reduced and the local telephone tax is permitted to expire next July 1, as now provided by law, business will be relieved of a discriminatory burden. Both services are now taxed at 10 per cent.

Originally, these taxes were imposed to discourage wartime use of essential facilities. In the 14 years since the end of the war the industries involved, users of the services, and others have fought a long, hard battle to have them removed.

Legislation passed last year promised repeal in 1960. To cancel or further postpone this gain would mean that the tax burden on users of these vital services will continue.

YOUR CITY

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better uses. Besides money, the city needed authority to condemn property for redevelopment. With the mayor's backing, business leaders drafted a Redevelopment Act which was put through the state legislature.

Opposition of rural legislators was overcome by limiting the law's application to cities with at least 300,000 population.

Thus, it applied only to Indianapolis, whose population is around 461,000 now.

The city was authorized to establish a Redevelopment Commission, through which it could condemn blighted residential areas, buy the property, clear the land, and resell it for specified uses.

The Commission was also authorized to levy a special tax up to 10 cents per $100 of assessed valuation of property in Indianapolis during the first two years, and five cents per $100 thereafter.

Mr. McCord, president of the five-man Commission during its first 10 years, says most of the first five years were spent establishing in the courts that the Redevelopment Act is constitutional. The main point at issue was whether the city could buy real estate for resale.

This authority was upheld in the Indiana Supreme Court.

So it was 1950 before Indianapolis really got rolling with its first clearance project. Project A, as it was called, involved acquiring, clearing, improving, and reselling 178 acres which were originally devoted to industrial, commercial and residential uses. New streets were built, adequate utility services installed.

In all, the Commission has undertaken to redevelop eight blighted areas and rehabilitate two others.

By the time it had six projects under way, the Commission decided it needed broader authority and more funds than the special tax levy was producing.

In 1957 the legislature adopted an amendment of the Redevelopment Act which:

▶ Granted the Commission authority to issue bonds up to an amount equal to one half of one per cent of the assessed valuation of taxable property in Indianapolis. This would bring in $3,895,000.

▶ Expanded the Commission's authority to stop blight through rehabilitation of existing structures.

▶ Clarified its authority to condemn and clear blighted areas which are predominantly commercial.

With this added authority, and in response to pleas from downtown merchants who fear the loss of high-income customers to the suburbs, the Commission has started two more projects in the downtown area.

It has raised $1,165,000 through the issuance of 20-year bonds to be used toward the purchase and clearance of an eight-acre area which is 60 per cent commercial and 40 per cent residential. The land is in the downtown section and will be sold to private interests for construction of a new commercial district.

The second project, for which 20-year bonds totaling $2,730,000 have been issued, will cover 42 acres in the downtown fringe. Blighted structures—a mixture of residential, commercial and public buildings—are now being acquired for land clearance. Sound structures will be left standing.

The cleared land will be sold for the construction of apartment buildings and possibly some row housing units. It is contemplated that 1,100 apartment units will be built, replacing the present 500.

Of the Commission's two rehabilitation projects one is a voluntary pilot effort which was begun before the Commission got its authority to engage in rehabilitation. It covers about 30 acres adjacent to the Commission's first slum clearance project. The Commission put a field

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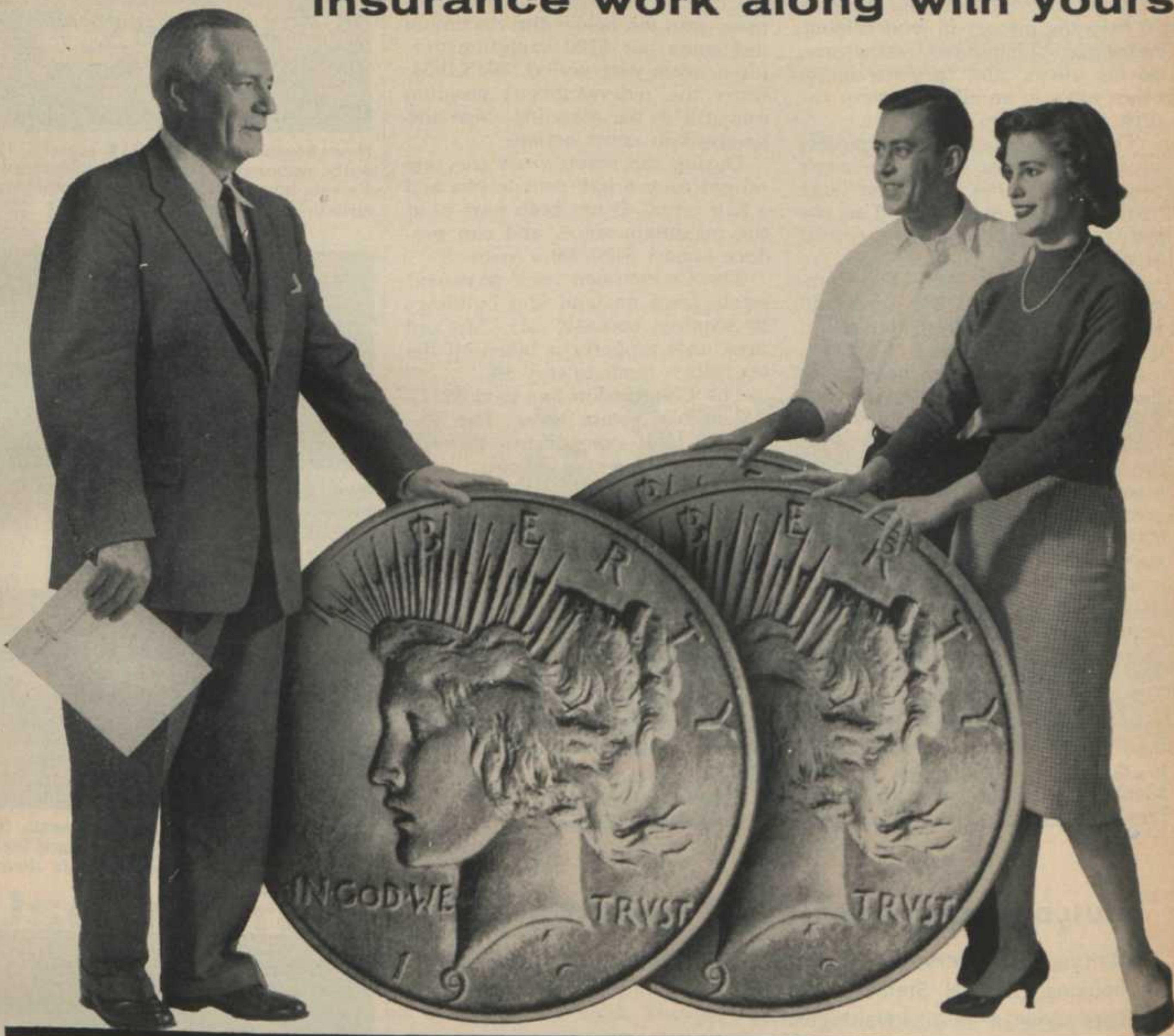

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YOUR CITY

continued

man on rehabilitation into the area to help the owners in modernizing, removing dilapidated structures, paving alleys, and sprucing up in other ways in an effort to stem the drift toward slum conditions.

The other rehabilitation project involves 72 acres where the city's prominent families built their large mansions 50 years ago. The objective here is to arrest the spread of blight.

In all, through 1959, the Commission has cleared 263 acres and realized $1,656,580 from the sale of land to private parties.

One of the financial benefits to the city is illustrated by the increase in property values in the first project, which in turn increased what the city will collect in real estate taxes. Acquiring and clearing this area cost the Commission $1,320,000. A study by the Indiana University School of Business estimates today's value at $7,720,000. It is estimated that, through increased tax revenues, the city will recover its investment in 10 to 25 years.

The Commission hopes to get more funds to get other projects going. The legislature may be asked to double or triple the present $3,895,000 limit on bonds the Commission may sell.

The special redevelopment tax levy produced a total of $3,383,000 from 1946 through 1959, although the rate, set annually for this purpose, was far below the maximum five cents per $100 valuation during a seven-year period, 1948-1954, when the redevelopment program was still in the planning stage and involved in court actions.

During the seven years the rate ranged from a half cent to two and a half cents. It has been near or at the maximum since, and can produce almost $400,000 a year.

The Commission itself pays real estate taxes on land and buildings it acquires because, Mr. McCord says, once property is taken off the tax rolls it tends to stay off.

The Commission has paid $211,200 in real estate taxes. The $5,583,700 total expenditures through 1959 break down as follows:

- Purchase of property, $4,529,000.
- Contractual services, $476,300.
- Personal services, $327,100.
- Real estate taxes, $211,200.
- Rent, supplies, equipment, $40,100.

In addition, $2,851,900 was invested in U. S. Treasury bills and $20,200 was put into a Redevelopment District Bond Sinking Fund, making a total disbursement of $8,456,000.

Receipts of $9,437,000 leave a

(continued on page 54)

BUILDER LISTS PERILS IN FEDERAL "AID"

Writing from personal experience with federal aid for local housing, Oscar H. Steiner of Cleveland, a community developer, lists some of its disadvantages. He says:

The Federal Housing Administration has virtual control over the kind of housing built, its price, location, and even the materials and design.

FHA is in on the planning, construction, and supervision, and has, to all intents and purposes, put itself in the housing business.

Investors and contractors are the government's "agents." In some instances the agents pocket substantial profits but leave the losses to the government.

These disadvantages lead to two defects which defeat the effort to stimulate low-cost housing:

One, the almost dictatorial rule books of the federal agencies lengthen construction time.

Two, they usually increase costs.

These and other views of Mr. Steiner on how to get the most out of urban renewal are discussed in his new book, "Our Housing Jungle—and Your Pocketbook," published by University Publishers, Inc.

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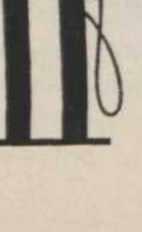

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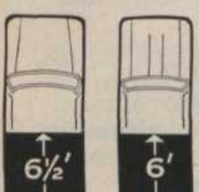

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YOUR CITY

continued

balance of $981,000. The receipts include:

- Bonds issued, $3,895,000.
- Taxes, $3,343,800.
- Sales income, $1,656,580.
- Rental income, $521,300.
- Interest and premiums, $20,200.

Funds available for this year total $4,319,100. They will be available from the regular budget, $534,500; the cash balance from bond sales, $884,600; and U. S. Treasury bills, $2,900,000.

Indianapolis's self-reliance is part of the general feeling in the state against outside aid and interference. A half dozen years ago state officials defied federal welfare officials who threatened to withdraw federal aid because relief rolls were opened for public inspection. (See "Indiana's Revolt," NATION'S BUSINESS, March, 1954.)

Gov. Harold W. Handley attacked the use of federal money to solve local problems in a NATION'S BUSINESS interview last year ("Federal Aid Checks Local Growth," May issue).

With a few exceptions, Indianapolis and state officials—Democrats and Republicans—have con-

John W. Coffman is in charge of the Indianapolis Redevelopment program, which uses local taxes and talent

sistently opposed federal aid except where interstate commerce and national problems are clearly involved. Federal funds are accepted, for example, for roads which are part of the interstate highway

(continued on page 59)

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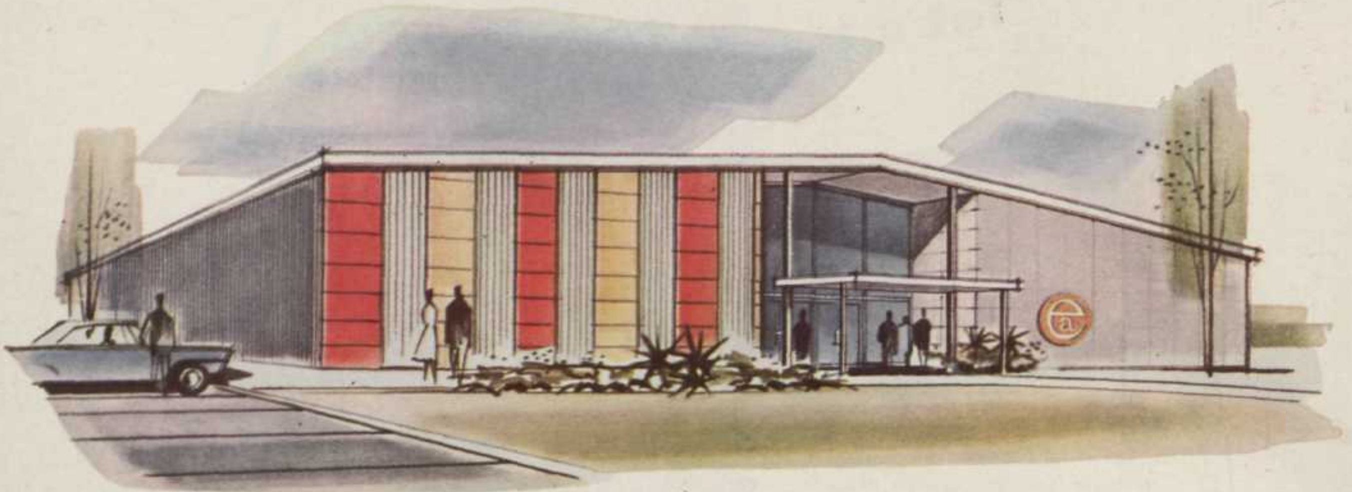

STRAN-STYLE I

four custom styles by Harley Earl

STRAN-STYLE III

an original concept in commercial

Recently retired as General Motors Vice-President in charge of Styling, Harley Earl has been a leading influence in design for nearly 40 years. Latest achievement of his firm: the new Stran-Style buildings.

Harley Earl Associates, noted industrial designers, have created four graceful, horizon-hugging buildings which enhance any commercial or industrial operation . . . colorfully, functionally blending Stran-Satin color-coated steel, glass and architectural porcelain panels around the efficient spaciousness of column-free interiors.

But the most exciting aspect of Stran-Style lies in its totally new concept, unprecedented in the steel building field. Each Stran-Style building is completely pre-designed, pre-engineered, factory produced—ready for erection on your lot immediately. *Only Stran-Style buildings combine the finest of contemporary design with cost-lowering mass production economy.* Select Stran-Style I, II, III or IV for your business . . . you get a modern structure of unrivaled beauty PLUS extensive savings in time of erection, in maintenance, in total cost.

After you select your Stran-Style building, colors and size, you deal with only one source for the complete project. Your Stran-Style

system and for airport construction.

Says Mayor Boswell, "Indianapolis always has taken great pride in solving its own problems. It's a matter of philosophy.

"We'd like to have less money sent to Washington and more revenue available at the local level to allow local governments to settle their own problems.

"Sure it hurts politically—with some groups. So what? Anything you do in office will hurt you with somebody. The only time that you don't get hurt is when you don't do anything."

This doesn't mean that local enterprise forces are without opposition. A mayor of Indianapolis a few years ago forced the Redevelopment Commission to apply for federal aid with the idea of converting the Commission into a public housing agency. But he died and the application was withdrawn.

Last year, after organized labor had made significant gains in the election of state legislators, a bill was put through the House which would, if enacted, have forced the Commission to operate under the federal-aid program. It was killed in the state Senate.

Mr. McCord says this: "Whoever holds the strings to the pocketbook will dictate how money is spent. If I were in Washington, I would want it that way."

During the period when the Commission, at the instigation of the mayor, had applied to the federal government for funds, the Commission had to get advance permission from federal officials for everything it did, according to Mr. McCord.

"We couldn't even hire an appraiser on our own," he points out.

Looking ahead, Mr. McCord says that the worst threat the redevelopment of Indianapolis faces is that some future public officials might force the Commission into the federal-aid program.

"Instead of speeding up our program, the red tape and control that goes with the funds would more likely slow it down," he warns.

"We know we can do this job ourselves, as can any community if it has the will to do it. If we don't do these things ourselves, why not close City Hall and send everything to Washington?" **END**

For more information on how to solve community problems locally, see "Construction," page 46.

YOU CAN MAKE THE BOSS LISTEN

Seven steps will sell ideas to top management

"THE DECISION to build that 110 kilovolt line rather than a 230 kilovolt line has cost us tens of thousands of dollars."

This observation came from the chairman of the board of a large electrical operating utility. Looking back, he mused: "We never would have made that decision if Roy had been able to convince us of what he believed." And here he put his finger on a crucial management problem.

Roy was the former vice president for engineering—an outstandingly capable engineer, a competent manager, but an inarticulate, unpersuasive spokesman for his staff and their work. This deficiency handicapped Roy, limited the usefulness of his staff and cost the company a pretty penny.

This example underscores the truism that the higher up an executive moves in his company's organization, the more skillful he must become in selling ideas to his superior if he is to continue as a useful and valued member of management.

Roy is gone from the company now, having retired some years ago. But the problem is still with the company. Time, of course, has proved that Roy was right in nearly every aspect of his recommendations. The only noteworthy failure was his inability to sell his ideas to his superiors.

If, then, this skill is a critical measure of executive stature, what are its components and how can those on the way up the executive ladder learn it? Executives who have developed their talents of persuasion mention seven ingredients of success in selling ideas to top management.

1. *Catch the interest of top management.*

Ideas are most salable to top management when top management interest is aroused. There is no compulsion on the part of any top management executive to be interested in every proposal submitted. The burden rests with the subordinate to make his ideas appealing and persuasive.

Generally, the most marketable

Catch boss's interest first

ideas are those that can have a direct and significant effect on profits, volume, costs, or competitive position. The salability of an idea can be further increased by the perceptive executive who knows the specific interests of his superior and can orient his ideas in a way that will spark one or more of those interests.

The results of targeting ideas to top management interests were clearly demonstrated in the following situation. A plan for exercising control over inventories kicked around a company for nearly three years without a top management sponsor. Then a thoughtful department head waded through the procedural veneer of the plan and found a potentially significant opportunity for inventory reduction. Refurbished, the plan for improving methods and procedures which had aroused no top management interest caught fire overnight as an idea for increasing working capital by $1.5 million through inventory reduction.

Thus, the initial hurdle of the division head, assistant vice president, or other executive in selling ideas is to catch the interest of the man who can make the decision.

2. *Recognize importance of timing.*

The timing of a proposal has an important influence on the receptivity afforded a specific idea. An idea that would be unsalable today could be the center of top management's interest next week, next month, or next year.

It would be a fairly obvious error in timing, for example, to present an idea involving sizable expenditures at a time when working capital resources are strained. It would be unwise to suggest a comprehensive program for overhauling production methods and practices in a period in which a new labor agreement is being negotiated. It would be poor judgment to present almost any idea at a time when a more important project, such as the acquisition of another company or the introduction of a new product, would have priority on management interest, time and attention.

The rewards of proper timing were demonstrated by the able young controller who watched with concern the relaxation of cost controls in his company during a period of growing sales and high profits. With management attention centered on new products and expansion, little interest could be generated in cost reduction. Regardless of the lack of current interest, the controller bided his time and kept his finger on the major costs and expenses that were getting out of line. When the inevitable dip in the economic cycle forced a hard look at costs, he was waiting with a well conceived plan that was quickly accepted. This illustration exemplifies the kind of ability in selling ideas that earned this young man a vice presidency within two years.

3. *Conceal pride of authorship.*

Ideas are more readily sold when they can be found in the mind of a top management executive himself or associates in whom he has confidence.

Invariably a good idea can be applied to the solution of a problem

in a variety of ways. If, by some variation in application or implementation, the idea can be related to a suggestion the superior had previously mentioned, the odds in favor of action being taken are materially increased. After all, bosses do have ideas. What they lack is the time to work them out; that is what the administrative assistant or the section head often supplies

Good timing is also important

when advancing an idea. Frank, who headed the inventory department in a metal fabrication company, had an idea. He thought that the investment in finished goods of slower moving items could be substantially reduced by holding parts in component stock and assembling to customer order. He successively checked his idea with the assembly general foreman, the warehouse and shipping superintendent, the customer service manager, and the plant superintendent. Each raised problems that needed to be resolved, but each also made contributions to the idea. The customer service manager was sufficiently intrigued to get the acceptance of his sales manager. When the time came to make the proposal to the manufacturing vice president, Frank had the full and active support of every interested party. He, as well as they, gained credit for a job well done.

From the standpoint of self-interest, this submerging of pride of authorship may seem unnecessarily altruistic. There is a wealth of evidence, however, that will attest to the fact that the man who is unwilling to give or share credit for his ideas seldom has a reputation for being able to sell ideas.

4. *Avoid the jargon of the specialist.*

Ideas are most readily salable when presented in a form and in language understandable to the man who will make the decision. The idea is and should be the reason for the presentation. An idea should not be merely a vehicle for an attempt to impress top management with professional or technical proficiency.

Top management assumes the competency of its executives in their particular field or specialty. Their position in the organizational structure recognizes this competence. Top executives, therefore, have the right to expect that ideas will be presented to them in their language, not in the jargon of the specialist.

Bill, who had his doctorate in economics, joined a company that never previously had an economist in its management group. His fluency in the language of his field immediately impressed top management with his knowledge and competence. Unfortunately, the honeymoon was over in six months. Bill never could learn to subordinate the language of his specialty to the more important task of getting his ideas across in the language of the ones he was trying to persuade.

The executive who generates the idea must necessarily assume responsibility for interpreting it in language that will best gain understanding and acceptance by those of whom action is expected. One of the easiest ways to kill acceptance of an idea is to present it in a setting that infers the idea could only have come from a highly trained specialist, and that a knowledge of the specialty is essential to proper understanding and appreciation of the idea.

5. *Present a balanced proposal.*

Ideas are accepted more readily when their presentation gives evidence of a complete and thoughtful coverage of the subject, concisely stated.

If a top executive is to be persuaded to make a decision on an idea, he has the right to expect the presentation to marshal the facts necessary to make the decision. One of the most frequent ways in which the up and coming section or division head stubs his toe is to propose vigorously an idea that is good for his section or division without due regard to its effect on other divisions with which the boss must be equally concerned.

The presentation, to be effective, must recognize and deal with the risks entailed. A change in the formulation of a product that is a leader in its field is of far greater risk and therefore requires more effective supporting evidence than suggesting the same formulation change in a minor product.

Subdue pride of authorship

A presentation should clearly indicate that company resources necessary to the accomplishment of an idea have been realistically appraised. An energetic sales manager had nearly persuaded his management to accept a large defense contract when one of the wiser heads questioned where the management personnel to staff the project would be obtained. It then became evident that acceptance of the contract would be at the expense of their regular business since the management team could not effectively wear two hats.

The presentation should also include a practical approach for putting the idea into effect, the potential assignment of responsibility for getting the job done, the installation costs, and time required. The one making the presentation should always be in a position to answer the query, "All right, suppose we go ahead with this idea, what do we do on Monday morning?"

6. *Learn where to compromise.*

The probabilities for selling an idea are materially enhanced by the

MAKE BOSS LISTEN

continued

knowledge of what compromises can be accepted without doing damage to the idea. Thus, the man who wants to acquire a skill in selling ideas to top management must necessarily first learn to differentiate between the conceptual aspects of the idea and the details of its application or introduction.

A compromise in concept invariably transforms the character of any idea and thereby kills its original intent. A compromise in the details of application or plans for putting an idea into effect may often represent an improvement in the original idea or facilitate its introduction. These so-called details of the idea actually represent the bargaining points that can be used effectively to gain acceptance, win support, and induce action. In many cases, rather substantial modifications of these noncritical elements of the idea can be accepted with little or no effect on its successful application, as was the case in this situation.

Jim was research director for a large consumer goods company. His group developed an improvement that was applicable to several of the company's products. Jim proposed introducing the improvement on a major product. The front office liked the idea but proposed using it on a less important product. Jim so vigorously opposed this plan that the idea came to rest on dead center. Meanwhile, a major competitor came up with the same idea and stole a march on Jim's company.

7. *Avoid an unfavorable decision.*

Even those who are most successful in selling ideas sometimes fail to make a sale on the initial presentation.

When it becomes obvious, however, that a favorable decision will not be forthcoming, they are careful to avoid getting an unfavorable decision.

Once an executive has gone on record as saying "no" to a proposal, the chances of getting subsequent approval are materially lessened.

Thus, a strategic retreat from a position that gives indications of leading to an unfavorable decision leaves the door open for a return engagement on a different tack. Often the reactions noted during the initial presentation will provide an indication of the deficiencies or unfavorable aspects of the idea that

MAKE BOSS LISTEN
continued

need to be remedied in a subsequent presentation.

Another device for helping guard against a flat rejection is the use of the alternative approach, which provides the man making the presentation with extra strings to his bow. Without altering the concept of his idea he can present one or more alternative ways in which the basic objective of the idea can be achieved. In this way, acceptance of the idea becomes a choice between alternatives rather than a choice between something and nothing.

It should be apparent at this point that selling ideas to top management is a skill that can be acquired by application and practice. Whether it is worth developing can best be answered by looking at the top management group in any successful enterprise. Invariably they have one skill in common—an ability to sell their ideas to others.

—ROBERT S. HALL,
McKinsey and Company, Inc.

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To find out what they

are, turn back to **page 40**

and read "Key Men

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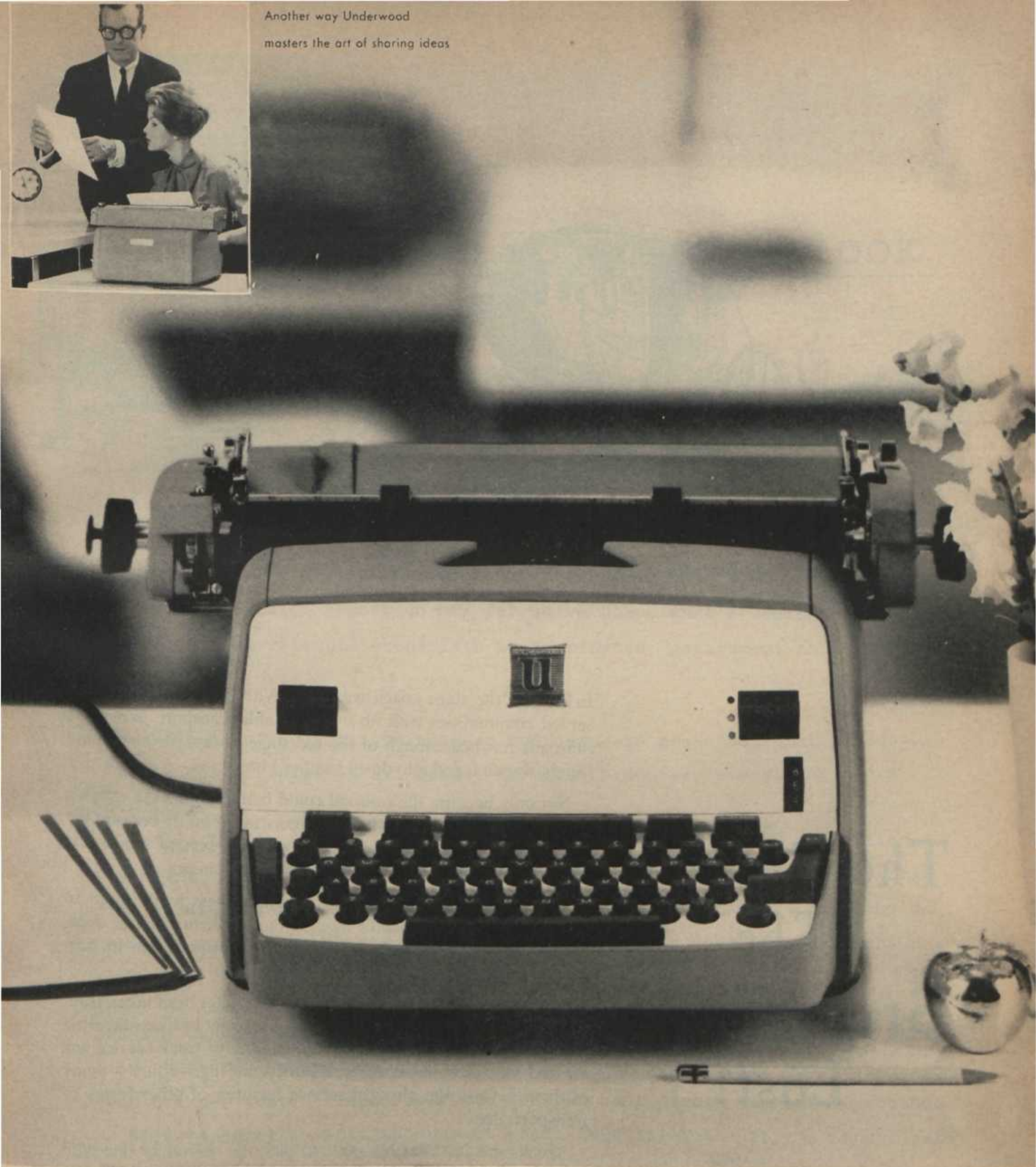

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Not only because the railroad could better handle the existing business the stage coaches had, but more importantly because the enormous new business created by superior service was traffic which could never have been handled by muscle power.

In transportation, as in other fields, business tends to go to those best qualified to handle it . . . to those able to provide, overall, the best service. And new forms of transportation in turn create new business the older forms never had.

Not all the freight handled by motor truck has been taken from railroads, to cite an example, nor is all air freight business diverted from either railroads or trucks. Availability of truck service has created vast new markets for industry and agriculture – many of them beyond the physical service facilities of other forms of transportation.

Trucks are fast, flexible–able to pick up, deliver or line haul any time of the day or night wherever there are roadways. That is why trucks today haul more tons of freight, within and between communities, than all other forms of transport combined.

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THE WHEELS THAT GO EVERYWHERE

ATA

SPECIAL LETTER

NATION'S BUSINESS EDITORS REPORT ON: boom's outlook

BOOM'S TWO YEARS OLD--this month. Key question now: Where's business headed next?

Answer: Still upward.

You're hearing rumblings about America's next recession.

Partly it's scare talk, partly politics. But there's enough truth in possibilities to justify close watch by thoughtful businessmen.

Here's a special report on how far we've come, what's coming next, based on most reliable economists in Washington, government and private.

* * * *

KEY MEASURE of economic swings--up and down--is gross national product. That's dollar value of all goods, services produced, everything added together.

Study this yardstick. It'll give meaning, understanding, proportion to dives, climbs. Limitations? Yes. But it's one of the best economic thermometers you've got, one you'll hear most about. Important thing to keep in mind about this yardstick is change--up or down and how much.

* * * *

HERE'S CURRENT SITUATION: From early '58--when upswing began--until early '59, business expanded 9.1 per cent. From early '59 until now, expansion was 6.1 per cent. Trends point to 5.8 per cent growth in next 12 months.

Gross product's estimated now at about $499 billion. That's annual rate for production so far this year.

Trend's up. It'll reach $510 billion for year.

* * * *

HISTORICAL AVERAGES for boom cycles shed light on what could happen.

Average boom--going back 100 years--lasts 27 months. Recovery range: Most likely to be 25 to 40 months. Past expansion lasted 35 months. Current

boom's 24 months old, good chance it'll go as long as past boom, maybe longer. Significantly, booms and dips of postwar have grown less violent than previous gyrations. Note the '57-'58 dip: Gross product fell 0.2 per cent. Contrast that with '29-'33, when output plunged 230 times as much.

Meaning of this, economists explain, is that future dips are likely to be less severe. Line of economic activity still waves--but gently, as in calm water, not as in stormy seas.

* * * *

BEST ECONOMIC TURN SIGNALS for next change are subject of much consideration among economists, businessmen.

These are indicators they're watching most closely, keys to future:

1. Inventory buying--Surge in business stockpiling, big rush to accumulate inventory that would far outdistance sales rate could red flag future. This action would hint overstockpiling, could be followed by production slow-up.

Overbuying isn't expected. What's anticipated is orderly, more restrained build-up. Trend will prolong boom.

2. Consumer expenditures--Danger signal would be a buying spree that could rob sales from future.

But that's not expected. Surveys indicate steady climb in sales, no dramatic burst of buying. Trend adds up to extension of boom.

3. Business spending for new plant, equipment--Explosion of expansion plans could foreshadow trouble. Boosting capacity far beyond reasonable expectations could cause idle plants, shortened workweeks with less pay for some employes--not doom, but gloom that could fog future economic horizons.

Surveys point to no such trends. Indicated is sound planning for future.

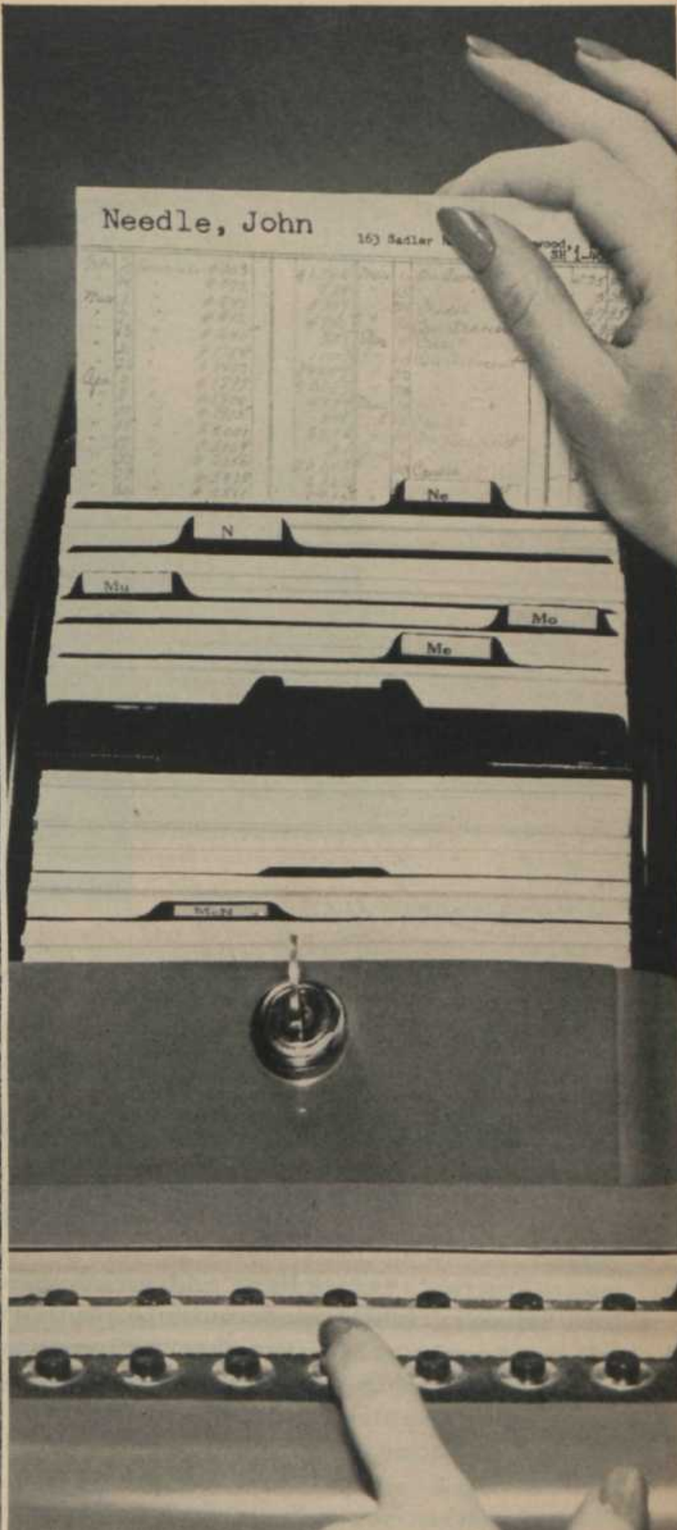
* * * *

ANY OR ALL of these forces zooming out of proportion in months ahead could point to future economic slippage.

Could mean also that business might flutter downward sooner.

But view's widespread here in Washington that next pause for economic breath is unlikely for another year.

When pause does come, there's possibility, even probability--economists say now--that recession will be mild, brief.



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A. E. REED, *Vice-President, Finance; Treasurer, Raytheon Company, says . . .*

"With more than 30,000 employees in Blue Cross,® we see the value of this protection almost every day!"

"The fact that we have a large number of people covered by Blue Cross gives us an excellent opportunity to see this protection at work in almost every type of hospital case. Our observations have convinced us that Blue Cross is definitely giving our people the help they need. And, of course, the fact that Blue Cross handles all details of payment directly with the hospitals saves us a tremendous amount of paper work!"

WHETHER you have many employees or few—whether you operate in one locality or across the country—Blue Cross can serve your protection aims realistically. If you wish, Blue Cross may be provided as a retirement benefit.

You will find Blue Cross gives outstanding value. That's because its objective is benefits based on care. And every cent paid Blue Cross, except for low administrative costs, goes to help pay members' hospital bills.

Also, there is a distinct advantage in the way Blue Cross Plans handle the details of payment directly with the hospitals. No extra burden for your staff. These are just a few of the reasons why some 300,000 companies, including such famous names as American President Lines, Ford Motor Co. and Sunkist Growers, have Blue Cross. For information, call your local Blue Cross Plan.

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BLUE CROSS®

Blue Cross Association, Inc., 55 East 34th Street, New York 16, N. Y.

TAX COLLECTIONS

continued from page 37

where you have a standard deduction. There isn't much opportunity for error except in arithmetic, which we now check by electronic equipment, or in exemptions.

On the large returns, the corporations, the 1040s, the 1040-Ws, we are doing a larger percentage than the 2.7 or 2.8 million indicates.

Is this more or less than last year?

It is more. We expect to audit about 200,000 more than last year.

Will you audit 200,000 more each year?

If we get the personnel that we have requested for fiscal year 1961, we may be able to increase that by another 100,000 or 200,000. And as we train this added personnel, the number can be stepped up even more in the years to come.

How do you decide which ones to audit?

It varies from year to year. When returns are filed, classifiers, highly trained, experienced individuals, examine them. A trained eye can tell almost immediately whether there is an error potential. Those that have an error potential—and size has some relationship—are set aside and handed later to agents with the ones with the largest potential error on top.

The standards vary from year to year depending upon the experience in past years. Our whole aim is to avoid what we call "no-change cases," because the more no-change cases, the more expensive it is to us, the more of a burden we have thrown on taxpayers in auditing their records.

What are no-change cases?

That is where, after examination, we accept the returns as filed. It is a common belief that the agents are expected to find a deficiency. This is not true. It is not the agent's fault if he finds no change. It simply means that we have to give a little more training to our classifiers or we have to adopt new standards for determining whether or not the returns should be examined.

Where are you going to put the emphasis on examination this year?

We try to have a uniform emphasis. Now with the new information we want on expense allowances, undoubtedly returns will be selected

TAX COLLECTIONS

continued

for audit which might not otherwise have been examined. That may or may not produce additional tax. We probably will devote some more time to that type of case than heretofore. But our new expense-account approach doesn't mean unfair, unreasonable field audits.

You have an educational program to inform the public that dividend and interest payments are reportable income. How much do you hope to bring in through this?

We hope we can rather substantially close what we call the $5 billion gap between what is received and what is reported. It will not be done in a year.

It appears that Congress may pass a law making corporations withhold taxes on dividends.

The House has passed withholding provisions in past years. They were eliminated by the Senate. Recently the Senate has decided to study withholding provisions with respect to dividends, not interest; and undoubtedly this will be considered this session, although I doubt if it will become law this year.

Would you favor such a law?

Only as a last resort. We hope it won't be necessary. It would impose certain hardships on people who live on dividends and from whom there should really be no withholding.

To correct that, it would be necessary for us to make refunds which would mean large administrative burdens upon the Service. But it may be necessary; we can't tell.

How about withholding taxes on interest?

That presents a much more difficult problem because interest paid ranges from that on various types of government bonds to millions of small savings accounts where the interest involved is small. Nobody has yet come up with what seems to us to be a workable plan for interest withholding.

What percentage of dividend income should be withheld?

It would probably be at the same rate that taxes on salaries are withheld: 18 per cent.

Between 1933 and 1952 the Justice Department prosecuted some 2,900 tax fraud cases, but between 1952 and 1959 tax fraud prosecutions

TAX COLLECTIONS
continued

went up to 4,344. What is responsible for this rather sharp increase?

I think there are a number of reasons. First, we have a better enforcement program. Second, a large number of fraud cases grew out of the second world war and the Korean war. Many were not detected until long afterwards. We have found over the years that the big fraud often occurs on the part of people who make a lot of money very rapidly. Third, we have had more prosecutions under gambling and similar statutes which are primarily not revenue producing statutes but policing measures.

To what extent is the government using the tax-evasion tool against labor racketeers?

Wherever we find a labor racketeer evading his income tax, we prosecute him just like we prosecute anybody else. We do not select those people any more than we select anybody who is a tax evader.

What methods do you see in the distant future to simplify or ease tax reporting for the taxpayer?

Frankly, I don't see much along that line until we can get a simpler tax law. The law now is 1,000 pages long. In the returns that people must fill out we have to compress all the provisions of that law, what is taxable income, what is deductible, and all the other things relating to tax liability. With the hundreds of sections giving special treatment to one type of income as opposed to another, we just have to provide complicated provisions with regard to returns. But we are studying the matter constantly. We have outside advisory committees who try to give us a fresh viewpoint as to what we may do.

When do you think we are going to get a tax cut?

Bear in mind that I merely administer a law that Congress writes. Except for matters pertaining to administration, we make no recommendations through the Treasury or direct to Congress for statutory changes. So, I am just not in a position to make any statement with regard to a tax cut.

Do you personally believe that present tax policy or tax rates, at least in some cases, deter economic or business growth?

I am sure that many people hon-

estly believe it does, and there is merit in their position. Frankly I am too busy trying to collect the taxes to be able to devote a lot of time to the economic thinking that would have to be involved in answering that question.

Do you think the income tax will always be the chief source of revenue for the federal government?

I do not know of any other place the huge amounts needed for the operations of this government can come from.

Do you have any later information on the $78.6 billion revenue estimate that the President gave for the current fiscal year?

No, except to say that our collections are going along as anticipated.

What do you consider the biggest loophole in the federal tax laws at present?

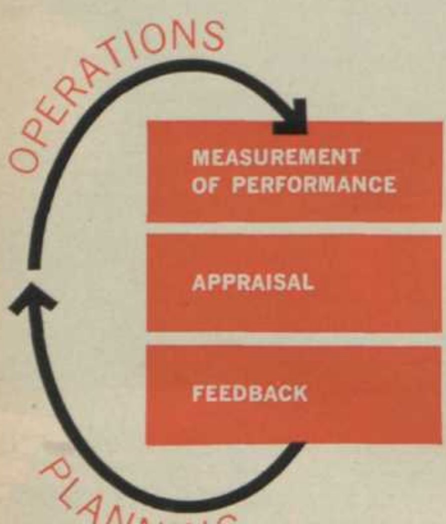
It all depends on what you mean by loophole. If you mean a result which Congress did not intend, there are not many. Situations always arise which the people who drafted a statute did not contemplate. We generally find those pretty soon after a law is enacted. Our technical people begin studying them, as we see specific situations arise. Those are corrected by suggestions that we make, and generally they are embodied in what we call a Technical Changes Act. We have them almost every year. We have one this year which includes 16 or 17 changes intended to correct results which were not intended, or to make administration more simple.

Now, the word "loophole" to most people means benefits that they think somebody else isn't entitled to. I have no comment with respect to preferential treatment provisions intentionally enacted by Congress. That is not part of my job.

Our job here, which is not an easy one, is to try to enforce the law and collect taxes due as efficiently and as fairly as we know how. To every one of our 50,000 people, we try to convey the same idea. If each one of us made just one mistake a year, that is 50,000 mistakes and every one of them brings the Revenue Service in for criticism. So we are trying to reduce to a minimum mistakes that human beings make. We have what I think is a pretty efficient operation here and personnel as well trained as any in government. **END**

LEARN MORE FROM YOUR EXPERIENCE

This three-phase technique offers new aid to planners



With planning and operations, business needs "review." It has three phases (see above)

ONLY by learning from what you have done can you make progress.

That axiom sums up the philosophy behind "management audit," a new concept that is gaining adherents in leading business organizations.

Its author is Alex W. Rathe, associate professor of management engineering at New York University. Mr. Rathe also serves as a principal lecturer at the American Management Association's schools for executives.

Mr. Rathe views management as a closed-cycle process with three phases—planning, operations and review. Business has been paying close attention to the first two, but the third phase has been widely neglected and misunderstood.

The term "review" is a relatively new addition to the business lexicon. Mr. Rathe believes it is far more meaningful than the traditional term "control." The latter can mean many different things, and its ambiguity may be one reason why managers have been slow to appreciate the full value of the function it was intended to designate. Although review embraces all of the measurements formerly made in the name of control, it has a much broader connotation. As Mr. Rathe uses it, review is a continuing audit of all areas of management.

"Review is management's rear-view mirror," he explains. "Whereas planning looks ahead and determines what ought to be done, review looks back and finds out what actually was done. But it does not stop with a post-mortem. It seeks to analyze why things happened as they did, and to extract from actual experience lessons that can be fed back at once into the planning phase."

Business has always recognized the need for some auditing of operations. But in the past—and even today in many companies—the main emphasis has been placed on measurements of financial performance, made by the techniques of accounting. More than anything else, control has meant keeping track of the money, and the controller has been simply the chief accounting officer. Without

minimizing the importance of fiscal controls, there are many aspects of business operation besides the coming and going of dollars that need to be watched.

One leading corporation, the General Electric Co., has evolved a list of seven key result areas in which it now seeks to audit management performance. They are:

- Profitability.
- Market position.
- Productivity.
- Product leadership.
- Personnel development.
- Employe attitudes.
- Public responsibility.

This particular list may or may not be suitable to your organization. It would be unwise to adopt anyone else's ready-made list. The first step toward establishing an effective review function is for management to do some hard thinking about the areas in which it is currently operating largely by intuition, instinct or hunch, and in which it is constantly making new plans with no real knowledge of how the old plans worked out.

"Basically," says Mr. Rathe, "everything that is worth planning is worth reviewing. The scope of review should be as broad as possible. There is such a high degree of interdependence among the various facets of the modern enterprise that you have to look at the whole picture to get a clear idea of how your plans are faring.

"Suppose, for example, that a new line is not selling well.

"The problem may be in marketing, which is the first place most executives would look. But the trouble could stem from something else—design, manufacture, quality, pricing. Unless review comes close to being all-inclusive, it is likely to miss the sore spot you most need to know about." Mr. Rathe envisions management as a full-circle process in which the phase called review is linked on one side to operations and on the other to planning.

Within the review phase there are three distinct jobs to be performed. They are:

1. Measurement of performance.
2. Appraisal of findings.
3. Feedback.

Measurement of performance

The first job is the intake line that links review to operations. It is essentially a matter of gathering data which reflect the results of operations.

Accounting is the oldest tool of performance measurement, and it continues to be the most widely used. It is indispensable in providing detailed information about such vital matters as overhead and unit costs, sales, inventories, capital investment and profits. But even with the latest refinements of cost accounting, this tool is less useful to management than it could be. It still tends to focus primarily on its original *(continued on page 80)*

What's the "mix"

to prevent the war that must not happen?

IN TODAY'S AMERICANA the word "mix" has a definition far more significant than any yet given by Webster. Simply put, it's America's recipe for peace—a careful blend of men and machines—of both manned and unmanned weapon systems, each designed to do a job the other can't, each indispensable for its own unique effectiveness.

Any potential enemy fully respects a missile's robot ability to deliver a payload to a target thousands of miles away; but he also knows that robots alone cannot deliver total retaliation. Some victories are achieved only by man's unique ability to capitalize on opportunity... make deci-

YOUR EXPERIENCE

continued

custodial function—keeping an historical and legally incontestable record of the receipt and use of funds.

"Because of the tax laws and the regulations of the Securities and Exchange Commission, every corporation must keep books in this way," Mr. Rathe observes. "But, there is no law that says you cannot also make more imaginative use of accounting methods to gather data that is operationally meaningful. For example, consider entries to depreciation accounts. In most cases, they are as high as Internal Revenue Service rules permit, say 15 per cent per year. But the equipment involved may actually have lost much more than that fraction of its value in the past year because of technological improvements, obsolescence, and the like. Accounting becomes a tool of true review, rather than mere control, when it brings that kind of information to management's attention."

The three other classic tools of performance measurement are: 1, work measurement, which is concerned with the time aspects of output; 2, production control, which measures the rate, volume and other quantitative features of output; and 3, inspection, which keeps tabs on the quality of output.

"These four techniques constitute the bulk of managerial performance measuring in many firms," says Mr. Rathe. "They are all useful enough in their limited realms, but they leave management in the dark about many aspects of operations. Additional tools are clearly needed."

These tools can be developed if management will learn to settle for approximate measurements instead of insisting on scientifically precise yardsticks.

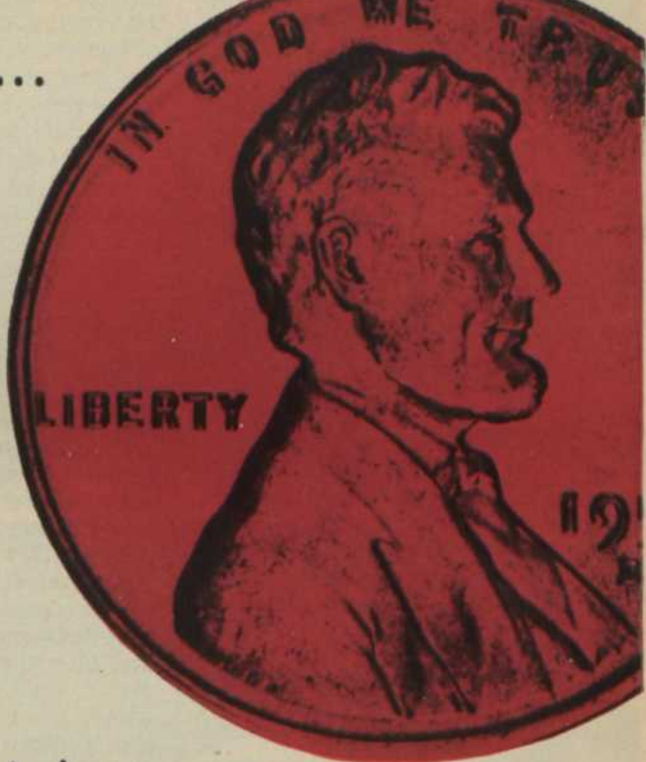
"This is a case in which, as the old proverb says, 'the best is the enemy of the good.' A false perfectionism has seduced management away from using many types of performance measurement which could be helpful, even though they may seem less exact than the neat figures on an accounting statement."

He cites two examples from recent industrial history to demonstrate how creative managers can invent their own yardsticks for making needed performance measurements in almost any conceivable field.

An oil company was experimenting with a new additive that was designed to keep the pistons in a

Even at 1000 to 1 odds...

YOU WOULDN'T MAKE A RED CENT



...on a bet like this!

If you bought 1,000 G-E Fluorescent Lamps and gave us $1 for every one that lit . . . and we gave you $1,000 for every one that didn't . . . chances are *the best you could do is break even!*

Those are pretty good odds—1,000 to 1. But if this bet is ever offered to you don't take it. You wouldn't make a red cent!

BECAUSE G-E MONEY SAVER LAMPS ARE MORE UNIFORM—Test after test of production lamps proves that, on the average, *999 out of every 1,000 G-E Fluorescents will be good, right from the start*. (You might even *lose* money on the bet because many actual users report their performance to be even better than this!)

G-E FLUORESCENT LAMPS DO SAVE YOU MONEY—Whether you buy a carton or a carload, the uniformity you get from General Electric Fluorescents—lamp after lamp after lamp—is your best assurance of getting the most light for your money. Not only do you get 999 sure starters out of every 1,000 G-E Fluorescent Lamps you buy, but after almost two years 990 of them will still be going strong! So you not only get more light, but your maintenance and production people like the freedom from annoyance and interruptions.

Performance like this stems from General Electric's constant search for new ways to improve *all* G-E Fluorescent Lamp types. Make sense? Then place your next order for lamps with your G-E Lamp distributor now—or write: General Electric Co., Large Lamp Dept. C-013, Nela Park, Cleveland 12, Ohio.

Progress Is Our Most Important Product

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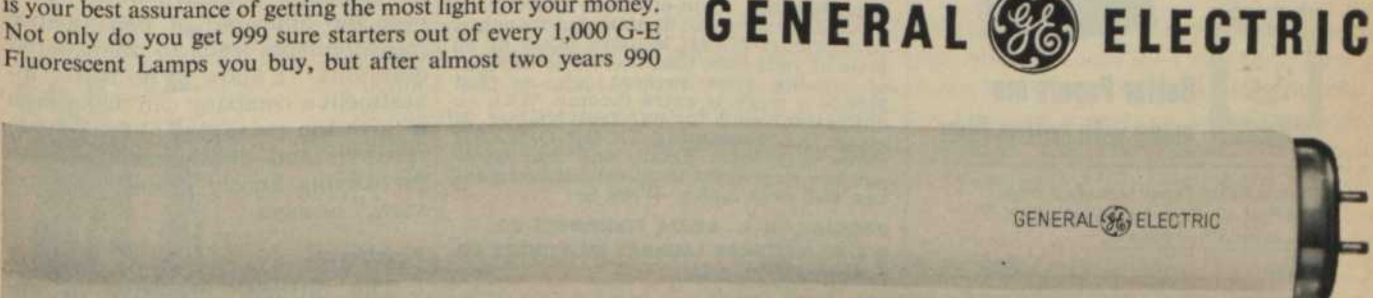

GENERAL ELECTRIC . . . WHERE BRIGHT IDEAS BECOME BETTER LAMPS

YOUR EXPERIENCE

continued

gasoline engine cleaner. There was no existing basis for measuring the efficiency of such an additive. So the engineers took a picture of a brand-new, spanking-clean piston. Then they took another picture of the dirtiest piston they could find. They had an artist draw nine intermediate steps of dirtiness. The series of pictures proved to be a practical device for rating additive performance on a simple one-to-10 numerical scale.

The Bell Telephone companies set out a few years ago to find a way to measure an even more elusive thing—the quality of service. First they ascertained from customer surveys the relative importance of such aspects of service as speed, accuracy and courtesy.

Then they studied operator performance to construct standards which represented a reasonable balance between customer expectations and operator capabilities. The end result was a 100-point scale on which monitors are able to grade the quality of service on any call. Bell executives recognize that the scale is arbitrary and at best an approximation, but they find it far better than what they had before, which was nothing at all.

Appraisal of findings

Gathering performance data is a job that management can delegate. But the second step of review, appraisal of findings, is a responsibility for line managers themselves.

There is no point in gathering a lot of statistics for their own sake. Performance measurements become useful only when they are studied and analyzed by managers who can diagnose their meaning.

The first problem that arises in appraising any performance measurement is to decide what you are going to stack it up against. Take, for example, a sales record. Should it be weighed against your own organization's sales in a comparable period—say last month or last year? Or against a competitor's sales? Or as a portion of the entire market? All of these comparisons may be helpful, but in the long run there is one criterion which is always basic: "How did you do in terms of your own plans?"

When review discloses a marked deviation between plans and performance, the next question is, why?

Finding the answer is not always easy, even when you have an abundance of measurements and a highly competent manager to analyze them. For one thing, you can never safely attribute a deviation to one particular cause until you have thought through (and, insofar as possible, measured) all other causes that could have contributed to the result. A model change-over may be the whole explanation of a drop in quarterly production totals at an assembly plant. But you can't be sure until you've checked other possibilities, too. Is there labor trouble? Is equipment getting obsolete?

Some problems may be so complex that line managers need special help in cracking them. Mr. Rathe believes that every sizable firm should have an operations research unit to which management can turn for intensive detective work whenever the appraisal of performance measurements leads to unanswered questions. "I know of no better investment a company can make than to give top management its private research and development section for solving knotty problems in review," he says.

Feedback

The ultimate objective of appraisal is to distill from operating

(continued on page 87)

Why make him a "center of distraction"?

Phones ringing . . . co-workers chattering . . . office traffic scurrying to and fro. The hustle and bustle of everyday office activity can put key personnel on edge, sharply reduce their efficiency. Here's a solution. Isolate your key people with movable partitions by GF, and watch productivity rise. GF movable partitions are of highest quality, easy to erect, easy to move or rearrange, attractive and practical . . . inexpensive, too. See for yourself. Call your nearest GF branch or dealer, or write The General Fireproofing Company, Department J-17, Youngstown 1, Ohio.

Whether you're planning new offices or major remodeling, it will pay you to consult GF Business Work Center specialists at the time you hire your architect.

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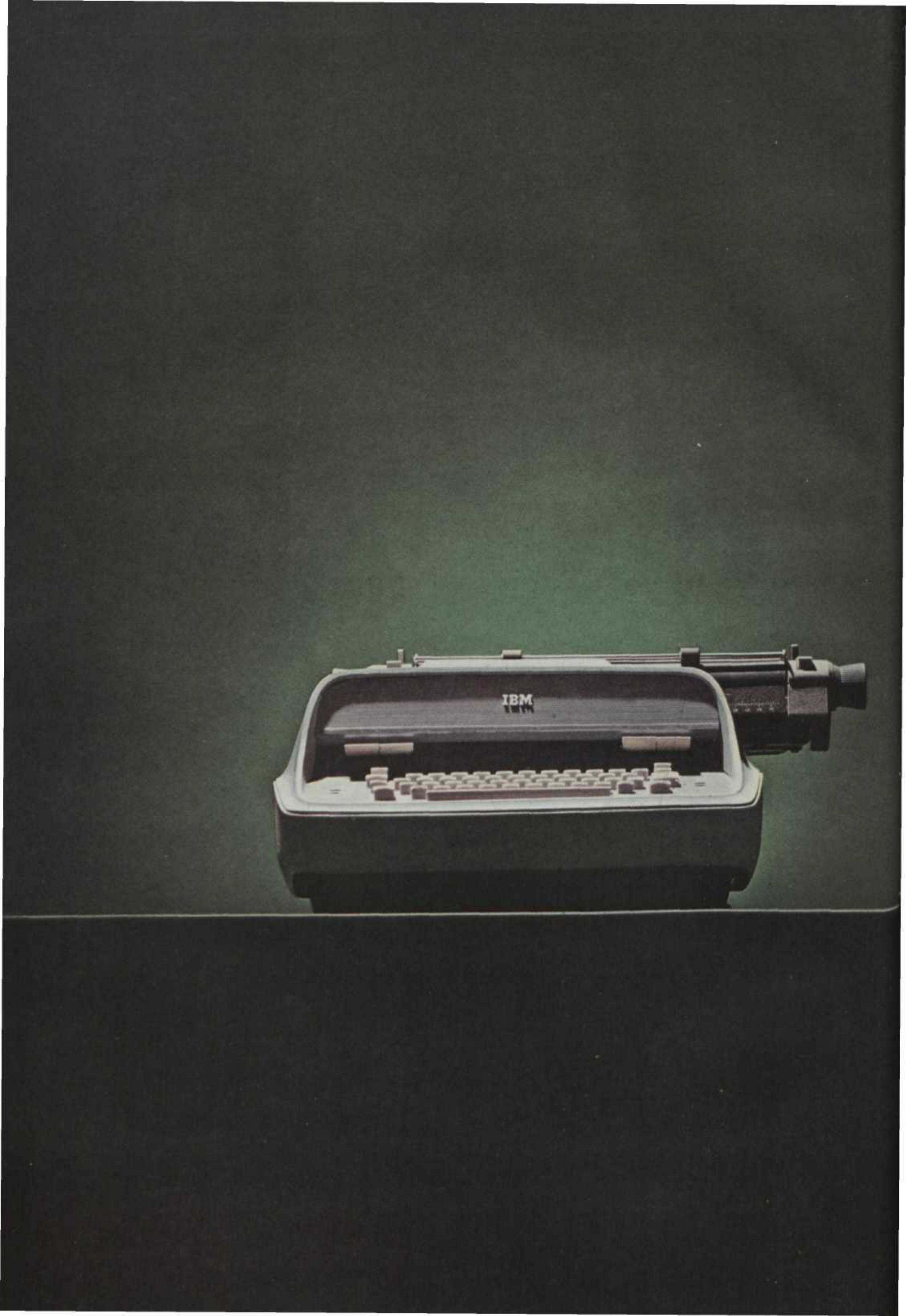
IBM

The new IBM Electric: Not to be chosen for beauty alone

We must admit that we purposely styled the new IBM Electric to appeal to your sense of beauty. However, there are even more substantial reasons for you to choose this fine typewriter. Designed to enable any typist to turn out flawless typing with the utmost speed and the least effort, it is one of the most perfectly engineered quality products in the world. Every part is made a little more precise than it has to be.

For example, each type character on every IBM Electric is individually checked and all type is carefully aligned. At IBM, type adjustment is so critical and precise an operation that personnel are trained for 5 months before assignment to an alignment station. Nothing short of perfection is accepted.

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A whole new principle exclusive to IBM, the amazingly responsive "Buoyant Keyboard," allows the operator to adjust key pressure to satisfy her individual "touch." The keyboard itself is the essence of simplicity, and no unnecessary gadgets intrude on the typist's finger action.

Service, too, is an important part of the IBM Electric story. IBM Customer Engineers are thoroughly trained in every function of this precision instrument. They will keep your IBM Electric working at its very best for years.

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A sound, economical investment, the IBM Electric typewriter consistently brings top trade-in allowance. However, many of our first customers have not found it necessary to trade. They are still using their original IBM Electrics purchased 27 years and over a million IBM typewriters ago.

So you see, the beauty of the IBM Electric is but a bonus. Our local representative would be pleased to demonstrate all of its superior qualities in your own office. Why not call him soon.

THE IBM® ELECTRIC

Its beauty is just a bonus

Mother India builds for the Diesel Age

Since 1949, India has pushed a widespread railroad improvement program.

Old track has been relaid, new track added. Modern equipment has been purchased . . . diesel locomotives . . . rolling stock. And service has been greatly improved.

As a result, India has grown industrially. In the period between 1951 and 1959, freight traffic on Indian railroads has increased some 40% . . . from 98 million tons to about 138 million tons. And estimates indicate an even greater growth in the near future.

All of which means that India has recognized the railroads for what they are – the backbone of a modern, growing industrial society.

* * *

In the United States, by contrast, public policies tend to ignore this basic truth.

Here, the government appears indifferent to the strength and stability of the railroads, while it promotes and encourages the railroads' competition.

Railroads are burdened with over-regulation and discriminatory taxation – while their competition uses highways, waterways and airways built and maintained by the government.

* * *

The railroads ask no special favors. All they ask is the equality of treatment and opportunity fundamental to the American concept of free enterprise. Granted this, the public would then be *assured* of the efficient, low-cost rail service which a dynamic economy and national defense demand.

ASSOCIATION OF
AMERICAN RAILROADS
WASHINGTON 6, D. C.

YOUR EXPERIENCE

continued

experience clear, concrete lessons. The third step in review is to feed back these lessons directly into the planning phase.

"Feedback is the output line which links review with planning and closes the management cycle," says Mr. Rathe. "It is an all-important step, and without it the rest of the review function is pretty much wasted motion.

"Unfortunately, it is precisely here that current business practice is weakest. Often you find a company going to great pains to measure performance, appraise the findings, and extract lessons.

"Then the results of all this work go into a report—and the report goes into the files."

Ideally, feedback should operate in management the same way it does in the human body.

He illustrates this by temporarily removing from his mouth one of the fat cigars which he chain-smokes. Placing the cigar on an ash tray, he explains:

"If my brain decides it is time for me to pick up the cigar and drag on it, that's planning. My hand reaches out for the cigar. That's operations. If my finger touches the hot end, that's a deviation from plans. The pain races through my nerves to my brain—that's feedback. Instantly I adjust my plans and operations to take account of this unexpected development. I grab the cigar somewhere else."

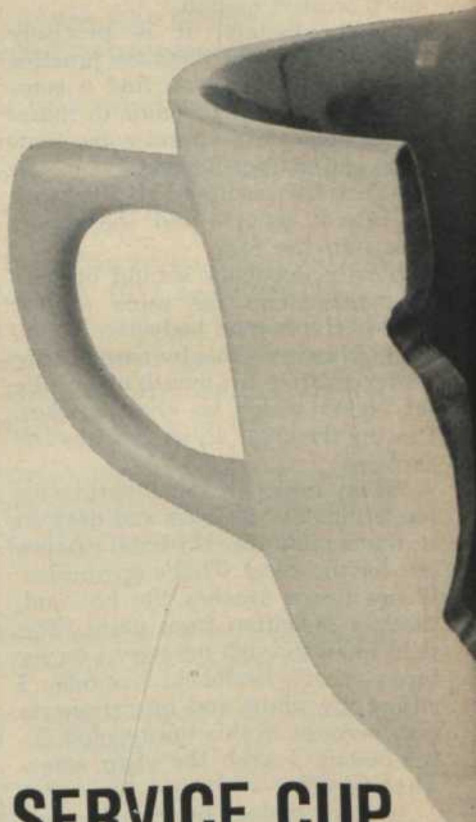
Another analogy he likes to use is the common household thermostat. The thermostat takes note of the plan, which is to keep the temperature in the room at, say, 70 degrees. It then continuously reviews performance, and if the temperature deviates from the plan, it immediately feeds back to the furnace a signal to start up or shut down.

"It is precisely this sort of responsiveness to actual conditions that business needs to get along in today's complex and ever changing economy," he says.

"Management must increasingly become a process of continuous adjustment of plans to the realities of operations as determined by review."—LOUIS CASSELS

REPRINTS *of "Learn More From Your Experience" may be obtained for 10 cents a copy or $7.00 per 100 postpaid, from Nation's Business, 1615 H Street, N. W., Washington 6, D. C. Please enclose remittance.*

COFFEE



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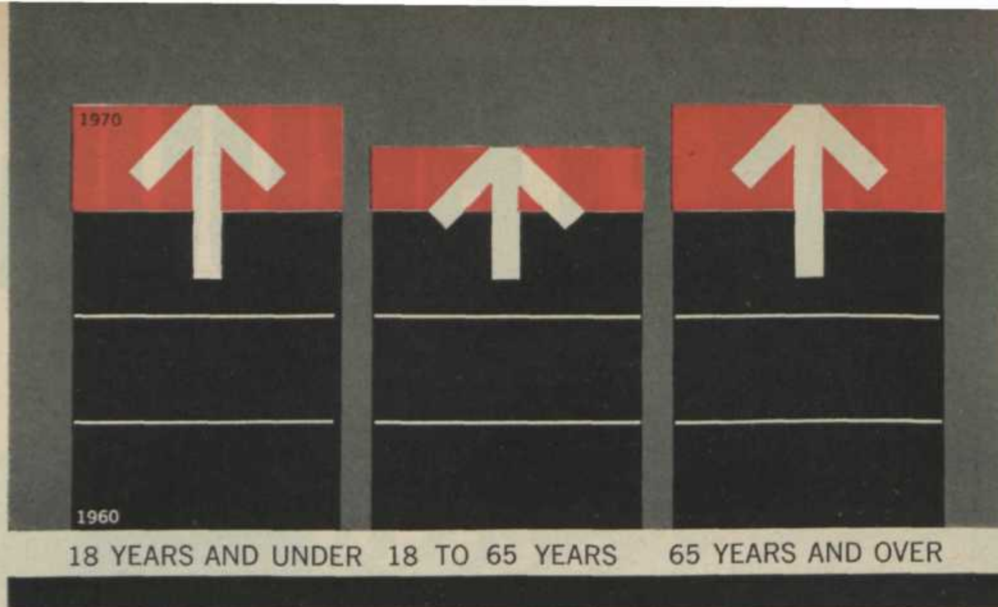


HERE'S BASIS FOR RECORD GROWTH

New markets, new workers, new burdens

BUSINESS will feel the impact of important changes in our population in the years ahead.

The nation's labor force will grow more during the 1960's than in any previous 10-year period of our history. Total population growth in the same period also appears certain to set new records.

This growth will provide the potential for unprecedented expansion in production and a great increase in consumption.

Our population totals 180 million now. It will grow to about 215 million before the present decade ends. This increase will be 20 per cent greater than the growth of the 1950's and almost double the increase of the 1940's.

Fastest-growing age groups will be youngsters and oldsters. While total population is increasing about 20 per cent, the number of persons under 18 will increase about 25 per cent, reaching some 80 million in 1970, if recent birth trends continue. Persons aged 65 will number about 20 million in 1970, also a 25 per cent increase.

Slowest-growing age group will be that of persons aged 18 through 64, which will increase only some 15 per cent, to about 115 million. This population growth will result from continuance of the postwar baby boom, plus a steady decrease in the death rate. During eight of the past 10 years the number of births reached all-time highs. Many children born during the baby boom of the 1940's will start raising families in the next 10 years, and births will probably reach 5.5 million a year by the late 1960's.

More women are now having children and having them earlier in life. Schools will have to accommodate this crop of youngsters. Children aged five to 17 years number 45 million this year, but will reach 51 million in 1965, and about 55 million in 1970. This means about 35,000 new classrooms must be built each year just to keep up with increased enrollment. Impact on colleges will be even heavier. Youths aged 18 to 21 number 9.6 million this year, but will increase to 14.6 million by 1970. College enrollment for 1970 has been estimated at six to eight million.

Variation in birth rates among the states, plus migration, will result in wide inequality of growth

in various areas. The Pacific Coast is expected to be the fastest-growing area during the next decade, followed closely by the Rocky Mountain and southern Great Lakes area. Fast-growing states, not in these areas, are Florida, Texas, Delaware and Maryland.

Urban population is increasing, particularly in the suburbs of large cities. Since 1950, farm-area population has decreased about 15 per cent, and population of nonfarm areas has grown about 22 per cent.

The number of household units, now 52 million, is expected to reach 63 million in 1970. These additional families will need 11 million housing units. Demolitions, obsolescence and other replacement requirements are expected to bring the number of new housing units built during the next ten years to 15 million or more.

Our labor force now numbers 73 million. By 1965 it should grow to 80 million, and by 1970 should reach 87 million.

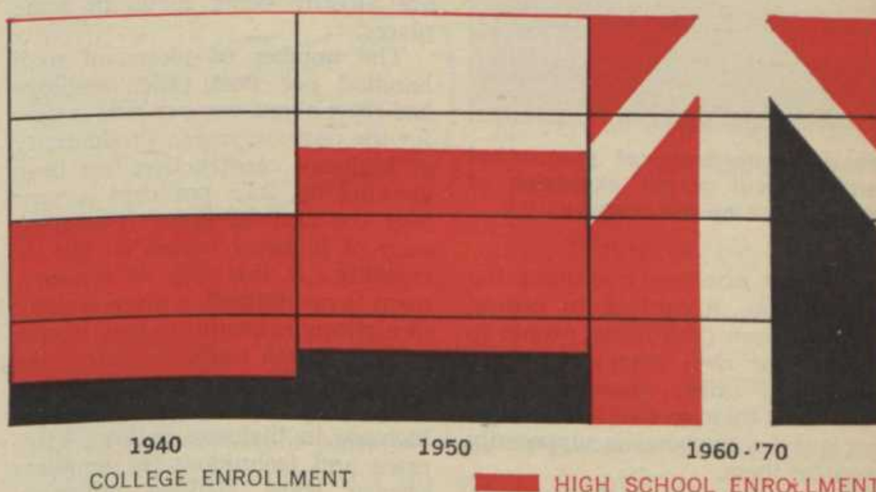
Younger workers will form a steadily increasing proportion of the labor force. Nineteen per cent of those in today's labor force are under age 25, and 39 per cent under age 35. By 1970 about 22 per cent will be under 25, and about 42 per cent under 35. Male workers aged 45 to 64 will number about 19 million by 1970. Male workers 35 to 44 will decrease by 250,000, as will those 65 and more. A larger percentage of women will be at work. They will include almost 12 million under 35; and 12 million aged 45 to 64 in 1970.

The level of education of the labor force is steadily rising. Currently, about two thirds of the youths entering the labor force have finished high school, and about one in six has finished college. Ten years ago only half had finished high school, and only one in ten had finished college. This trend will continue.

Growth rates vary widely among the major occupational fields. Fastest-growing group is that comprising white-collar workers. This group, which now forms 43 per cent of the work force, will increase even more in the 1960's.

The number of manual workers grew rapidly during the 1940's, increasing by 37 per cent. In the 1950's however, the growth of this group slowed to a five per cent increase.

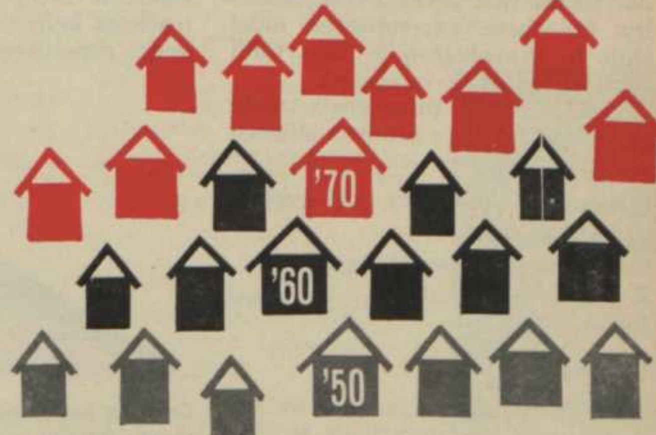
During recent years, a decreasing proportion of



service workers have held jobs in private households.

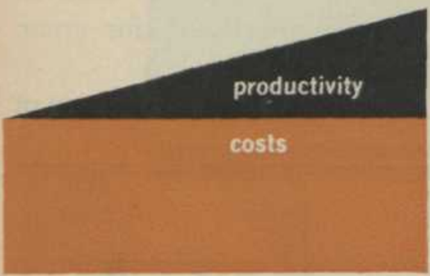
Farm workers have decreased in proportion to the total work force and also in absolute numbers. In the 1940's the number decreased 19 per cent, and 15 per cent in the 1950's. Farm workers made up 18 per cent of all workers in 1940, 12 per cent in 1950, and are now less than nine per cent of the work force.—FRED D. LINDSEY

New housing units will increase



TAXES OUTRUN REAL NEED

Facts show better public service and tax reform are both possible



Greater productivity of government employes will permit expansion of services with no tax increase

OUR FREE ECONOMY is doing too good a job. According to critics, we have been permitting people to spend their own money for what they want rather than taxing it away from them so that government can spend it for what is supposedly good for them.

The suggested cure of some politicians is to raise taxes to levels that would discourage consumer purchases and enable government to provide what might be called the social capital and social services necessary to a growing economy.

The social service areas or activities where shortages are feared generally include education, sewer and water facilities, highways, slum clearance, natural resources, public housing and that catch-all, general welfare.

Agreeing that an increasing population is going to require additions to most of these services, it still does not follow that general responsibility for these expenditures must shift to Washington or that total tax rates must be increased.

Instead, these three goals might be sought as more prudent alternatives:

- Increased efficiency of governmental service.
- Extension of user charges.
- Greater tax yields from increased incomes.

Efficiency

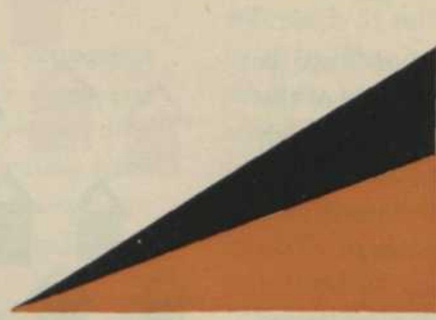
In the private economy, we expect output per man hour to rise, on the average, three to four per cent each year. Those who insist that government can spend our money better than we can ought, then, to expect some productivity increase in the public sector. Gains are already being made in some places.

The number of pieces of mail handled per Post Office employe has risen about two per cent a year for the past six years. Productivity of highway construction has been growing by 2.75 per cent a year over the past 30 years. The efficiency of highway layout is also increasing. If this rate of improvement is maintained, a given amount of highway expenditure may handle twice as much traffic 25 years from now as it does today. A doubling of highway traffic might require no increase in highway outlay. Processes and techniques for handling sewage show striking advances. Progress is being made in water purification, use and re-use.

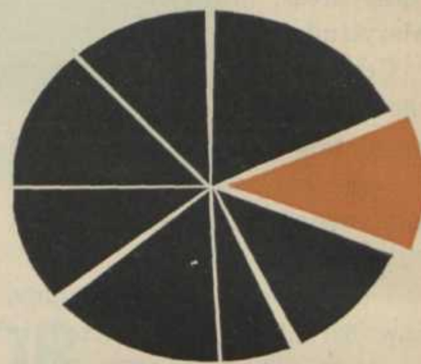
In education, under pressure of increased enrollments, we are putting to use some of the lessons learned in the 1920's when school costs doubled in relation to goods and services produced. These lessons were forgotten when incomes began to rise faster than school enrollments.

Now we are able to build on what was learned.

Experiments are being conducted with new building designs and new teaching methods. The use of television is being tried. The use of teachers' helpers is another method under experiment. Development of remedial reading offers tremendous possibilities. We take it for granted that people must learn how to do scientific, technical or artistic work, but we ignore the fact that they need to learn how to study. Proper study methods and habits can increase the productivity of teachers and of students tremendously. This fact is being put to use in an increasing number of schools. More should be spent on schools than we are now spending but the dollar expenditures need not rise in direct proportion to the volume and the quality of education desired.



Growing population and rising income mean greater receipts without rate increase



When users pay for government services, they buy only what they need

All this means that the money required for a given amount of public service in the future cannot be determined by multiplying today's expenditure by the anticipated growth. Productivity in some segments of the public sector can grow rapidly; in other segments the growth may be negligible, for good reasons. But an average growth of two per cent should be possible. If we conclude that services provided by the government should increase by five per cent a year—which may be a high figure—a two per cent productivity factor applied to this five per cent brings the real cost of the new government services down to the expenditure needed to achieve growth of three per cent a year.

Or, if governmental services grow by four per cent a year, and productivity by only one per cent, the real cost will still rise by only three per

cent. This is less than the expected growth in the economy as a whole. This means the productivity factor alone might cut the costs for the growth in governmental services below the growth in the total volume of private goods and services produced. This factor alone might mean no increase is necessary and might permit a reduction in overall tax rates.

User charges

The second offset to some of the suggested need for increased taxes is that we are paying for more government services by user charges.

Some services, such as schools, are not always adaptable to user charges. Bright children who can use a good education to their own and the community's advantage should have opportunities for such an education even though their parents are poor. Police, fire, and general administration are other services which cannot well be adapted to a price system.

But increasing amounts of services are being adapted to the price system. Aside from postal revenues, service charges accounted for little of governmental revenues in the 1920's. When it became difficult to raise taxes in the 1930's, local governments particularly turned to service charges, notably for sewer and water facilities. As the gasoline tax was raised, the tendency grew to link it to the cost of building and servicing highways.

The Highway Act of 1956 finally and officially earmarked federal gas taxes for interstate highway building purposes. Those using these new roads were to pay for the privilege.

In 1942 state excise taxes came to about \$1.4 billion; by 1952 they totaled about \$2.8 billion and by 1959, \$4.3 billion. State and local fees and miscellaneous charges other than taxes, including state vehicle and gas imposts (but excluding sales taxes) probably came to about \$10.5 billion in 1958. More and more social capital and social services are being provided on a fee

TAXES

continued

basis. The market place is being used increasingly as a guide to the desirability of performing functions, and for clues as to the charges which should be made for those functions.

Putting public services fitted for the market place into the market place has two big advantages:

First, it reduces the tax burden as such. Nearly one fourth of state and local revenues comes from consumer charges. If these charges were paid through the collection of general taxes, the tax rate would have to be raised nearly 30 per cent.

Second, services paid for in the market place can be expanded as the market place decides. If water use is outrunning the capacity of the water system, it becomes possible to finance an expansion without raising taxes, on the clearly defined premise that the users want the water and will pay for it.

This "and will pay for it" is important. When services are provided by general tax revenues, consumers want as much as taxes will provide. When users pay for what they get, they tend to ration what they buy in light of their preferences and needs. Consumer use then tends to represent an economic use. Services paid for by fees are more likely to be expanded as the need arises than would be the case if taxes had to be raised. Here's why:

First, the federal government has become an expensive operation. Federal budget receipts in 1929 were less than four per cent of the nation's total output of goods and services. They were more than 15 per cent in 1959. States and localities could tap 96 per cent of the income resulting from the total production of goods and services in '29. They could tap only 85 per cent in '59.

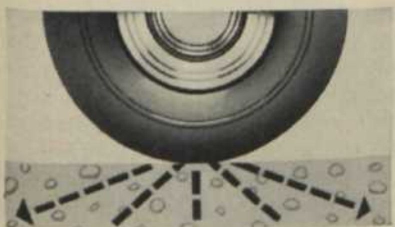
The other side of this story, of course, is the fact that incomes have risen. Per capita incomes rose 58 per cent, in 1959 prices, from 1929 to 1959. In current prices, the rise was nearly 200 per cent. States and localities in 1959 had a 40 per cent bigger per capita base to tax, after federal taxes, than they had in 1929. However, per capita services increased more than 60 per cent so states and localities are hard pressed, despite the increased efficiency of many of their services.

Second, all governments have to convince the taxpayers that a par-

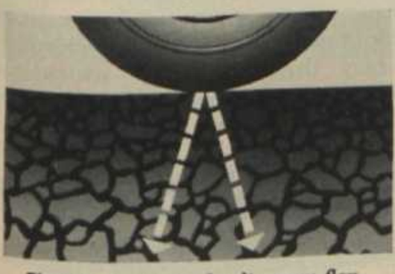
Modern concrete for Kentucky's Interstate 65 south of Elizabethtown

CONCRETE is the pavement that is not flexible

...gives maximum strength with minimum thickness!



Concrete's beam effect distributes wheel weight over large area of subgrade, reduces spot pressures. Strength of material—not mass—carries the load, permitting minimum-thickness pavement.



Flexible pavement, by its very flexing effect, transmits load forces in almost direct line to subgrade. Excessive concentration of load force can be overcome only by building up pavement thickness.

Interstate System highways like Kentucky's Route 65 pictured here call for a pavement that is solid and unyielding.

Kentucky's highway department chose concrete for this important stretch of Interstate System highway. Necessity for multiple strata construction of 2 to 3 times greater total depth was avoided.

Strength with minimum bulk is possible, of course, because concrete isn't flexible. It supports and spreads the load like a beam. Pressures on the subgrade stay permanently within safe limits.

And concrete's design efficiency assures low maintenance costs in years ahead. In fact, maintenance costs will be as much as 60% lower than for asphalt. Only concrete enables engineers to design highways to last 50 years and more.

You can see why engineers and taxpayers agree that concrete is the preferred pavement for heavy-duty highways—especially on the new Interstate System.

FOR HIGHWAYS WITH A SOLID FUTURE...
Concrete

PORTLAND CEMENT ASSOCIATION

A national organization to improve and extend the uses of concrete

TAXES
continued

ticular service, such as education, or police or fire protection, is worth the money. It is much easier to vote taxes in Washington, D. C., than to vote additional taxes at home. Local pressure groups can be more effective in fighting taxes (and waste) at home than many miles away. This is part of the democratic process. The process is working, as illustrated by the rise in school expenditures, and the decline in the total tax load, relative to the gross national product, since 1953.

Third, even though the country as a whole may progress, many communities will lag in providing facilities and services which are generally deemed necessary. This tends to happen in poor states but it also happens in richer states. But this country has not shown that it is willing to say that if some of the states do not provide their citizens with adequate services because they do not tax themselves as much as other states, the federal government will intervene and tax all states in order to subsidize them. We rely on the enlightened citizens in the laggard states to put their own houses in order.

Fourth, it is difficult to get any function or jurisdiction to reduce tax rates even to permit others to get more.

Even when the federal government develops a healthy surplus, as it should next year, there will be difficulty in getting taxes cut—unless there is a recession. The Administration will want to keep taxes up to pay off some of the debt. Congress is likely to want to keep taxes up to increase spending. The fact that states and localities need more revenues may not enter into much of the discussion. Those who want more for education try to get money from Washington rather than reducing the taxing power in Washington and returning it to the states. Those who want to cut the debt will argue that states and localities would not spend the money for necessary things, such as education, anyway, therefore federal taxes

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should not be cut. Neither side will trust the democratic process as it works in states and localities. It will be more difficult to cut federal taxes than it was to raise them.

Increased incomes

Receipts of the administrative budget totaled $68 billion in fiscal 1959 and are expected to approximate $84 billion in fiscal '61, an increase of $16 billion. The gross national product supporting these tax receipts is expected to rise from $442 billion to approximately $510 billion. With little change in tax rates, each $4.50 rise in the gross national product is expected to bring an increase of about $1 in federal receipts. If the nation's total output increases by $20 billion a year on the average, as it should from now on, this could mean an increase of about $4.5 billion in budget revenues each year, with no change in tax rates.

Federal outlays should not rise by this much in future years. Even if defense, social and all other federal government costs rise at twice the rate of increase averaged over the past decade, the increase would be about $4 billion more a year. If, for example, defense outlays shoot up from $46 billion to $70 billion and social costs from $9 to $15 billion by 1970, cost still would be below income.

Even this is less than $4.5 billion, so current tax rates on the average will yield larger and larger surpluses. The federal tax rates need not be raised in the future, and can be cut.

The story is somewhat similar for state and local governments.

State and local revenues from taxes came to about $28 billion in 1955 and may equal or exceed $33 billion in 1960. An increase of $20 billion a year in the gross national output, with no increase in tax rates, may bring an increase of nearly $1 billion in state and local tax revenues. A normal increase in prosperity may, therefore, raise tax revenues by $5 billion a year. This appears to be as much rise as needed to meet necessary expenditures by federal, state, and local governments.

It appears, therefore, that those who have been insisting that tax rates must be raised have ignored vital forces which are working to offset the need for higher tax rates. The pressure for expanded and bet-

ter services is irresistible. But the capacity to provide these services at lower unit costs, the ability and willingness to make the user pay for more of these services, and rising incomes, are making it possible to get the problem under control.

Even in the area least subject to the market approach—education—we have been making remarkable strides toward meeting needs. We are spending $2\frac{1}{3}$ times as large a proportion of our income for schools today as we spent 60 years ago when our income was much lower. Local governments spent about 1.1 per cent of the gross national product on schools in 1900. They spent about two per cent in 1950. They are spending about 40 per cent more now than then. We are spending more and more of a larger and larger income on schools, and on other nonfederal activities. We can continue to do this without raising the tax rates and endangering the economy.

Techniques have been developed now which make it possible for each state or locality to raise the money to meet its local needs. The federal government need not preempt the tax structure, as has been demonstrated by city after city and state after state. If those who agree that more should be spent for schools, sewer, water, and other high-priority purposes will concentrate on convincing the voters in the states and localities that they should live up to their responsibilities, local revenues can be obtained, and demands on the federal exchequer loosened. If (barring a hot war) tax rates as a whole rise in the next decade, it will not be because over-all governmental outlays need to be raised more than incomes, but because the electorate was not awakened to what was being done to them.—ROBINSON NEWCOMB

Executive Trends

An old canard exploded

You've often heard that it isn't what you know that counts in business, but whom you know.

A survey conducted by the University of Michigan among its graduate students and company executives suggests that there may be more fiction than truth to this saying.

Willingness to work hard—"plain, old elbow grease"—ranked first in a list of 25 characteristics for reaching upper management.

Other traits regarded as essential both by students and businessmen were: personal integrity, communication skills, power of logic, self-confidence, adaptability, and understanding of human relations. Rated as less important, but often necessary, were: intelligence, technical knowledge, social grace, aggressiveness, optimism and previous experience.

▶ The Michigan researchers conducted their survey among 46 company executives and 106 graduate students in engineering and business administration. Business administration students tended to rate personal appearance as being somewhat more important than did the engineers, a fact which summons up images of Madison Avenue's well groomed, gray flanneled prototypes.

One respondent said, "To gain and keep a position in management, a person must be willing to work 60 to 70 hours a week as well as live and breathe his job."

Defends use of status symbols by business

Companies which give their executives expensive cars, keys to the private executive washroom and other status symbols are following sound business strategy.

That's the opinion of George S. Odiorne, director of the University of Michigan's Bureau of Industrial Relations.

He says companies can use status in four ways as an incentive for increasing the productivity of their managers. The first is to raise executive pay. A second is to provide more elegant offices, a move which he regards as creating a desire for luxury. A third is granting club memberships of ascending importance for men at various levels. A fourth is the financing, by the company, of housing for those in the executive cadre.

▶ "The justification for such a scheme," Mr. Odiorne declares, "must be soundly rooted in performance and unselfish service to the enterprise on the part of executives to qualify for higher status. This implies some standards of performance which are required of a manager if he is to rise, and

adequate opportunity for the excellent to move quickly through the ranks at the expense of the mere time-server." He points out that the upward-moving executive sacrifices many things, including his leisure time, outside intellectual interests, and a complete family life—all sacrifices which underscore the worthwhileness of granting status privileges.

New way to find a job

Twenty enterprising graduate students at the Massachusetts Institute of Technology have devised a unique method for locating postgraduation jobs in small business concerns.

The students have formed an informal organization known as "1960 Business Search."

Working as a group, they have started a mail campaign directed to local banks, chambers of commerce and other organizations as a way of obtaining lists of small businesses. Once they get the lists, their objective is to contact the concerns by mail and in person, thus pinpointing companies where their previous experience and training in industrial management at M.I.T. will yield "mutual benefits."

An interesting aspect to the search is the fact that the 20 young men are not going after positions with larger companies, many of which have on-campus recruiting programs.

▶ The reason for seeking jobs in small companies, according to William Mott, chairman of "1960 Business Search," is that the graduates want to connect with firms which, because of their smaller size, will offer the young executive a greater opportunity to "see the whole picture" and to get to know the entire management team personally. The Business Search group will graduate in June. If you're interested, you can obtain a list of the 20 young job-seekers (average age, 25) by writing to William Mott at M.I.T., Cambridge, Mass.

Another industrial revolution heralded

Both technological progress and social change indicate that man is entering another major industrial revolution, according to Dr. Melvin Kranzberg, professor at Case Institute of Technology.

On the technological side, Professor Kranzberg cites the changes in six basic areas which are associated with an industrial revolution.

These include changes in basic materials, fuels and motor power, machines and tools, techniques of production involving the organization of labor, transportation and communication and—within the last century—the impact of science on technology.

Fulfilling these requirements, Professor Kranzberg says, man now finds that the rare earths and lighter metals as well as new alloys and man-made plastics provide a new resource material.

▶ As for power, nuclear and solar energy promise a revolutionary transformation in our power sources.

In production the rise of automation and the automatic factory are almost as much of a major breakthrough as the original development of the factory itself.

Professor Kranzberg says this new industrial revolution is producing two noteworthy things—the emergence of the great fused cities or megalopoli, and a wider distribution of the labor force so that the number of workers engaged in actual production is dwindling relative to those engaged in service and clerical positions, while those engaged in manufacturing must become upgraded in skills to meet the demands of more complex machinery.

Another change he sees is the rapid spread of the ownership of our businesses.

MAKE AGGRESSIVENESS AN ASSET

Employes can have too much drive. Here are symptoms, tips on what to do

AGGRESSIVENESS ranks high among the qualities sought in managers. Every company is looking for self-starting young men who can show initiative and follow-through.

But the overly aggressive person arouses resistance. Others will go out of their way to block his progress.

For this reason, top executives declare, they spend much of their time doing two things:

1. Trying to stimulate subordinates who don't show enough aggressiveness.

2. Trying to straighten out those who let aggressiveness get the best of them.

Methods of attaining the first objective—salary increases, fringe benefits, status symbols—are generally understood and applied. But how to put brakes on aggressiveness, once it gets out of hand, is more complex and harder to manage.

It is not impossible, however, once we recognize the motives that lead to aggressiveness and the personality changes that show it is becoming a handicap.

A number of studies show that, although other motives may exist, those that drive a man to accomplishment are primarily three:

- A desire for power.
- A desire for a good reputation.
- A desire for wealth.

Let's look at these motives and at the danger points in each. In every case we will find a stage where caution is indicated. If this stage is recognized, the ill effects of having too much of a good thing can be prevented.

The desire for mastery

Deep inside nearly every successful man is an intense desire to be best. He might want to be the number one production man in the organization. His every action is calculated to carry him toward that. Naturally, this requires that he acquire some skills in outwitting his competitors or, more often, outworking them. There are six stages of this desire to be top dog.

The first stage is the highly-sought-after desire to excel in his chosen field. He has such a sense of craftsmanship and pride in his work that he simply won't turn out an inferior job nor will he be bested in quantity of output. This is the basic building block by which most managers and employes achieve mastery of their field. One of the great problems of modern management is to develop more tools and skills for instilling this desire in more people.

Usually this desire to excel propels a man quickly into the next stage. Here he becomes the joy of his

Aggressiveness good trait

Too much is bad

Likes only passive people

boss, because he demonstrates that he has a self-development habit that leads him to acquire new skills as well as to do effectively the things he already knows. He studies his own past efforts, corrects his own mistakes, and learns how to repeat his successes in new situations.

In the third stage he raises his eyes to see how the other fellow is doing. Rather than working to meet some personal standard, he tends to increase his efforts and performance to exceed the best efforts of his best competitors. He gets real enjoyment out of rivalry with other good men. He especially enjoys winning against tough opposition.

The next stage involves his emotions and his ego in his work to a degree which wasn't previously apparent. When he faces a tough competitive situation he learns to stretch himself to win, and develops the capacity of working at paces that he himself didn't know he could maintain.

In these first four stages we see an ideal manager for a modern company. Every incentive we provide leads him to develop winning skills, and use them best when the chips are down.

The danger point comes in the fifth and sixth stages where he begins to blow his top when he's frustrated in his drive for mastery.

In these last two stages basically sound drives have turned into belligerence and hostility. In its mildest form this crops up as maliciousness and nagging. At worst it appears as temper tantrums.

A hothead can add a touch of drive and energy to the management team, but sometimes at a cost which the company can't afford. A midwestern banker learned this. He hired an aggressive man to head his new-business development. Blessed with a keen sense of competition, he shortly began to go after, and get, the taken-for-granted customers of other banks. His attitude was one of open competition for customers. For a while his own bank president was delighted. Then one day, a customer decided to withdraw his account. The new man made a hard sales pitch. The customer—also hotheaded—gave him some sales resistance. Soon they were out in the parking lot behind the bank swinging at each other. Police intervened before damage was done to anything except the bank's prestige.

This is an extreme case, but uncontrolled temper can constitute a problem for the manager who tries to build a hard-hitting team of aggressive people.

The too-aggressive person often develops a general attitude that other people are inferior or no good. This puts a limit on where he can be assigned, because subordinates and associates quickly sense such an attitude.

Such a man will surround himself with compliant people, since only passive personalities can stand being around him long. His reactions to opposition are usually painful, not only to the objects of his wrath, but to those who observe it. Such men are quick to fire people: a loyal subordinate who thinks for himself, or an advertising agency which doesn't agree with his whims.

In the final stage, such a man becomes clearly revealed, his inhibitions stripped away, and his infantilism exposed.

Three cures for excessive desire for mastery

How do you help an angry man control his wrath and channel it into useful lines?

1. Most men learn it by feeling the hard knocks which others give them when they behave that way. Letting him get the cold shoulder from colleagues, or being left out of the social niceties of the work group, is one way. Anger as a system of obtaining mastery is a self-feeding device. If it works once it will be tried again. If it produces only hard knocks or slapped wrists, it will be used with more reluctance.

2. A knuckle-rapping by the boss can be equally effective if done early.

3. For the fellow who has an advanced case which is causing over-all output and quality to suffer, there's no cure, unless the man himself recognizes his condition and tries to control it. Normally his superior can point out that his work and personal progress

Cold shoulder can cure

are being adversely affected by his tantrums, and can seek agreement that the condition exists and needs improvement. This is often slow work and occasional lapses are to be expected, coupled with some guilt afterwards. Failing this, the superior might seek professional advice to advantage.

In one case, a competent young manager of sales for a large company was suffering from a bad case of egotism. His records in selling were excellent. Not stopping there, this aggressive fellow undertook to tell manufacturing, engineering, and just about everyone else about their shortcomings.

Not wanting to lose his excellent abilities, but pressed for action by his subordinates, the general manager rotated him into a position as plant manager. After two months of trying to apply some of his methods there he asked to be sent back to sales, a chastened and wiser man.

The factory wasn't hurt too badly because the professionals at the next lower level had kept things going in spite of him. They had also contributed greatly to his growing-up processes by pointing out the effects of his impulsive and ill-formed decisions. Not everyone can have such valuable and quick training, but the principle is sound. An unjustified feeling of mastery can be brought into line by putting the man in a spot where he can taste failure.

Desire for a good reputation

Every man on the rise learns quickly the value of a good reputation, and quietly works to establish one for himself, since it's obviously one way of getting where he wants to go.

The realization that reputation is valuable comes when a man is noticed and possibly praised for doing good work. More important than the praise, however, to the aggressive man is the fact that now he becomes a candidate for jobs further up the ladder.

"The first time I really began to feel that I might make the grade in this company was when I heard that two managers were squabbling over who was going to get me for a vacancy in his division."

That's a statement by a company president looking back upon his career. The realization that a reputation is an extension of the good work you've done is a key phase in reputation-building. Soon the aggressive and competent man finds that he is in a position to select the spot he'll move to.

As one general manager put it:

"At one time, about five years out of college, four different executives asked that I be assigned to their departments. I sized up the situation and applied for the job with a small division which was growing fast and needed somebody who could do a job. It was the smartest thing I ever did. I rode with that division until I was the only logical candidate to be general manager."

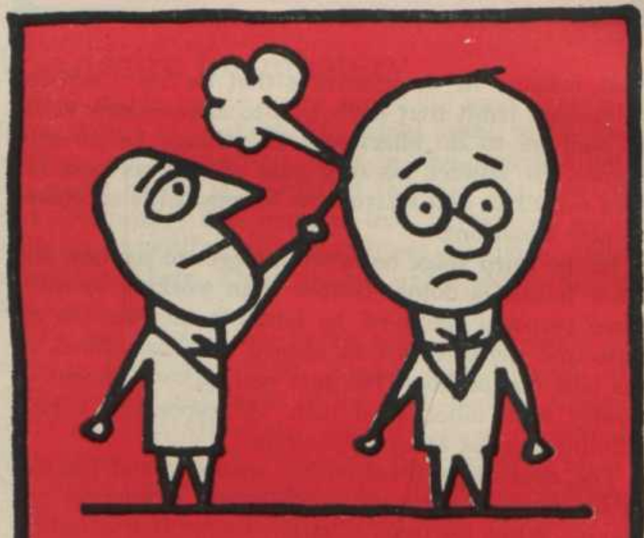
Having arrived in a position where he's now a proven man, the manager develops his own opportunities and creates his own reputation-building opportunities. Here's how one such manager did it:

"When I first took over the X division I sized things up carefully, and asked myself, 'What's the tallest weed that I can chop down here?' The answer was in manufacturing costs, and this was where my experience lay. I mapped out a cost-reduction program that trimmed away the fat left and right. Naturally, the profit of the division improved considerably and I was tabbed as a profit-maker. This paved the way for assignment to the Y division, the biggest one in the company."

All this is desirable and should be cultivated in a manager. It is when we get to the next stage that the first symptoms of danger begin to appear.

At this stage our man has built up supreme confidence in his ability to lick most of the problems he may face. The confidence sometimes extends to other things about which he has little real competence, but which he is willing to assume are just as easy of solution.

When he makes speeches he talks confidently about foreign relations, politics, or women's hats. In its most harmless form this sometimes reflects itself in a newly acquired expertness in the manners and fashions of successful people. Because he's successful, he uses money effectively to establish an air of distinction and superiority. He's likely at this point to become an authority on fine arts, good food, fine fittings, good cigars and other accoutrements of success.



Equals can deflate ego

All of this may even be helpful, since it gives him color which can cause others to have confidence in him.

It's when he goes beyond this into the sixth stage that he is likely to have trouble—along with the company which employs him. At this stage he's out of touch with reality, and only hears the things that agree with his preconceptions. He loses his skill in listening to others, especially those below him in rank, assuming that he needn't hear the whole story to see the basic nugget of truth. He becomes immune to criticism and irritable when he hears it.

As this attitude hardens, he becomes less tolerant of opposition, considering it impudent. Here's how one such man's subordinate described him:

"Nobody dares to tell him the truth if it's against

his opinion, and everybody tries to guess what he wants to hear before opening his mouth. He can destroy months of work with a single snort."

When such a person takes a fall, as he almost always does, he'll resort to tricks to feed his ego. He deceives himself first, becomes more skilled in alibis, and avoids hard tests of his skills in order to avoid further failures, however small. If facts get in the way he'll duck them. If his predictions fall short of reality, he'll question reality rather than his own judgment.

What to do when desire for reputation leads to excess vanity

Once a manager has gone beyond the danger point in building a reputation, there's still some hope for salvaging him. The guide for solution of the vanity problem (which is what passing the danger point creates) lies in prevention, rather than cure.

Here are some steps in prevention and cure:

1. Every young man on the rise should be coached in the techniques of reputation-building by a boss who still holds his future in his hands. This may be done by his own manager, or by a management development counselor, if necessary.

"One method I've used to show young fellows on the way up how to avoid getting a swelled head is to point to some examples that are commonly known in the company or outside," one counselor states.

2. Several training courses for managers are therapy-centered and attempt to hold up a mirror for such men to see themselves. Commonly known as "sensitivity training," these courses have done wonders in helping people see themselves.

3. Occasionally a survey of employe opinion will reflect images of top management. Such results seldom cut through the hard shell of a tough case, but in some instances they startle the fellow who has recently fallen into this pattern.

In one company, a general survey of management practices included the question, "How do you see your boss?" and gave the subordinates an opportunity to check one of several frank answers. The result was that the boss did a sharp reversal on his practice of not listening, squelching ideas, and treating subordinates like dolts.

4. The company's management-appraisal system permits a man and his boss to sit down together and talk frankly about such problems as this. The limitation here lies in the incapability of the average line manager when it comes to dealing with complex personality counseling.

One large food company's appraisal procedure provides that the content of such talks be limited purely to the subordinate's performance. If performance is bad, then the reasons become legitimate items for frank discussion. If the reasons lie in the vanity and unwillingness of the man to listen, then this is discussed as a part of his performance. The theory is that, unless a habit or trait has affected performance, it's none of the company's business.

5. A man's peers are the best people to tell him his problem in instances where he is too high up the ladder to be treated by normal methods.

The executive vice president of one company was suffering from a severe case of inflated ego. One of his subordinates convinced him that he should attend a management course.

After trying some of his tactics on his classmates there, all of whom were just as important in their companies as he was in his own, he caught the idea. On the last day of the course he asked permission to address the class.

"I'd like to apologize," he said, "for being the insufferable fathead that you saw when I came here. I'd like also to thank you for the kindly fashion in which you took me down a peg or two. I think this has been the most valuable experience in my business career."

Another executive was asked to serve as chairman of a volunteer community chest drive in his city. His insufferable vanity shortly got him into trouble. Finally, several executives who were also working on the drive cornered him and told him some things about himself. He saw the whole drive threatened

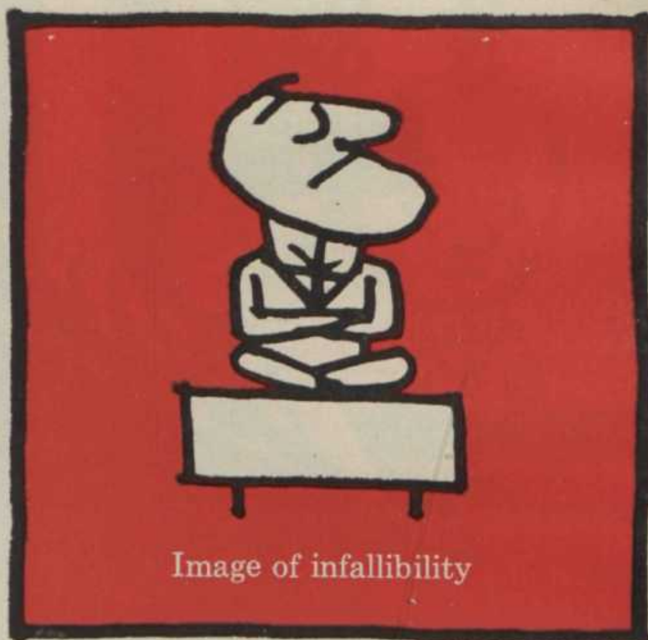


Image of infallibility

with collapse unless he tempered his ego, and began to listen to others. The experience had substantial carryover on his behavior in his own company.

The desire for wealth

In picking a man who is likely to maintain a steady drive for the top, it's sound strategy to choose one who wants better things than he has now. These goals may be luxury cars, a bigger house, money in the bank, a fat stock portfolio, or to send his children to a fashionable college. The chase for better things is a strong motivator. Men go through definite stages in satisfying their desire for material success.

In the early stages, the young manager makes up his mind that he wants a higher standard of living and decides to get it by working harder and smarter.

The next stage comes when he gets many of the things that he associates with a better standard of living but discovers that he can probably do even better.

"When I was foreman in the plant, I decided that we would some day live in one of the nice old houses

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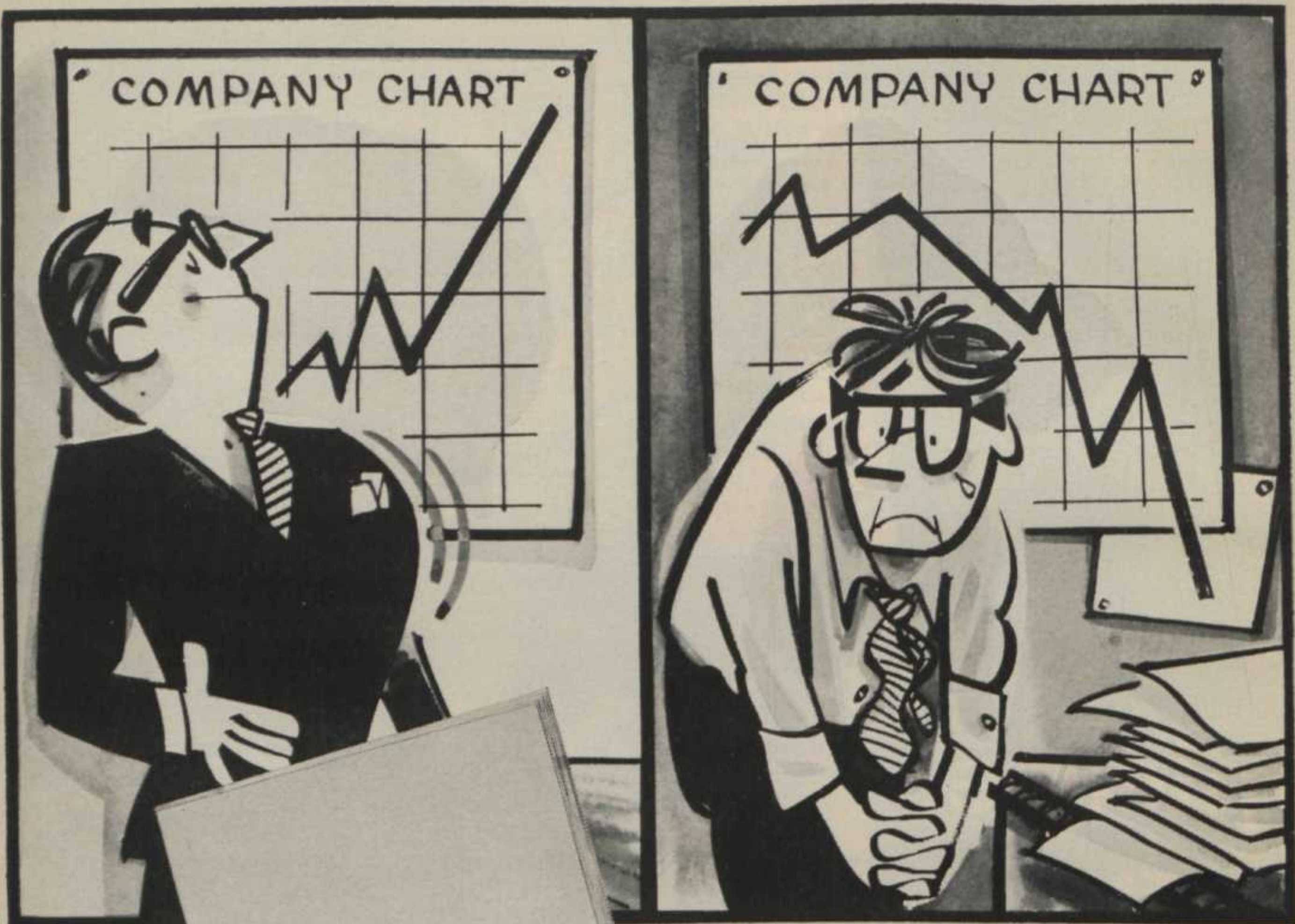

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on Main Street," one executive said. "When I became assistant manager, we made it. After we'd lived there a while we began to eye one of the bigger houses up on the hill. That was a big turning point in my career. I began to figure out a five-year plan for moving into the plant manager's job, and I made that, too."

The next stage comes when he has achieved most of the outward symbols of success and can afford most of the dreams he had as a young man. At this point he either levels off or sets his sights on gaining the big successes. The new goal may become an estate and financial independence, or he may begin to eye the cruisers at the boat show with a new interest, or maintain two houses, one at the lake and one in town. He may start talking to architects about that dream house in the fashionable part of an exclusive suburb. He finds that managing his personal affairs is a fair-sized business problem in itself. Here's how one executive put it:

"I found that owning a house in a community with the inherited-money boys was heady stuff. I got an old farm, modernized it, bought six Aberdeen Angus steers, and joined a country club."

This step occasionally leads the ambitious manager into the dangerous fourth stage. This is where he begins to discount against the income he expects from his next promotion. He stretches his standard of living too far, neglects his estate-planning, and lets spending exceed income. Often he finds that his expense account is keeping him going, and he treats it with a liberality which is just short of outrageous.

The family budget is a thing of the past. The tension and strain of maintaining living standards which are beyond his income result in some tension in the job which may have the beneficial effect of driving him to terrific levels of output. The truth is that most people who get into this position carry it off. An unhappy few stumble and fall. It takes strong nerves.

One executive search consultant reports:

"I always consider it in my favor if the man we are trying to hire away from his present company is living beyond his income. This means he'll likely listen to our offer if it means a boost of that $8- to $10,000 which he thinks will solve his problems. Usually the money won't help."

The final stage comes when his financial woes catch up with him. One sales executive was taken off a traveling job where his expense account was high and put in an office job. This caught him in a financial bind and he wound up in a trap he couldn't handle. The company spent huge sums bailing him out. He finally quit. Financial problems growing out of overextension are frequent. When they occur they create company problems.

The cure for too much desire for worldly success

As with many serious ailments, an ounce of prevention is worth a pound of therapy. One executive describes his method like this:

"Whenever I can, I talk to the younger fellows about their personal estate-building program, and try to get them on a long-range plan that includes savings, insurance, a retirement plan, annuities, and a sound real-estate plan."

Many companies now offer special programs of advising their younger executives on estate-building, and make counselors available at no cost.

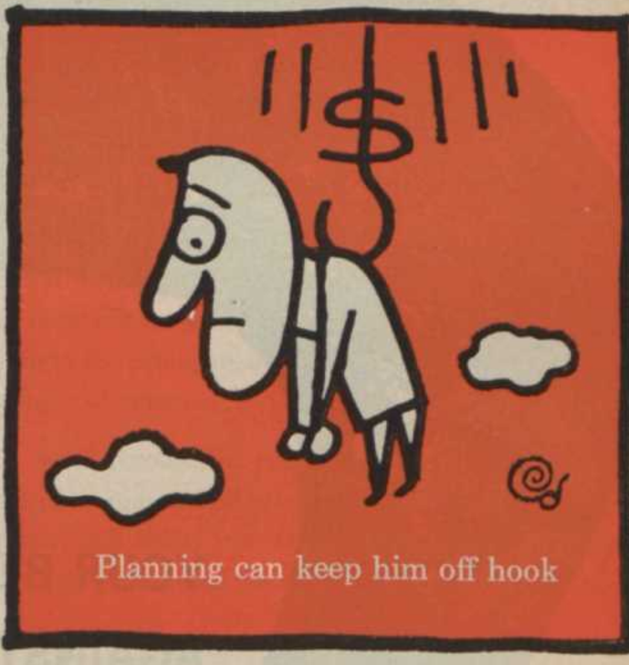
An oil company holds periodic meetings of its executives to which the wives are invited.

While the husbands are off talking sales or refining, the wives are attending discussion groups led by a professor who talks about how the wife can help the husband succeed—and especially on financial management.

Other companies try to prepare their people through adroit planning of the compensation and benefit plans which they provide executives. This is coupled with a management newsletter which includes some professional and down-to-earth advice on personal-affairs planning for executives.

One insurance company requires executives to file annual statements of their financial condition. Those in hot water—or on the verge of it—are told bluntly to get things in line.

In a large midwestern bank, the senior vice presi-



Planning can keep him off hook

dents are held responsible for the private financial affairs of the younger men reporting to them. If one begins to live beyond what seems to be normal for his income, he is invited to explain.

Drastic as these steps seem for most companies, there is still room for informal chats on performance which slide smoothly into more personal aspects of finance and personal estate-planning.

Under such a plan, the executive can appraise how eager the subordinate has become for worldly goods and, from his own experience, drop broad hints about curbing what appears to be undue emphasis on outward evidences of success. The latter would appear to be most workable for the average company.

—GEORGE S. ODIORNE

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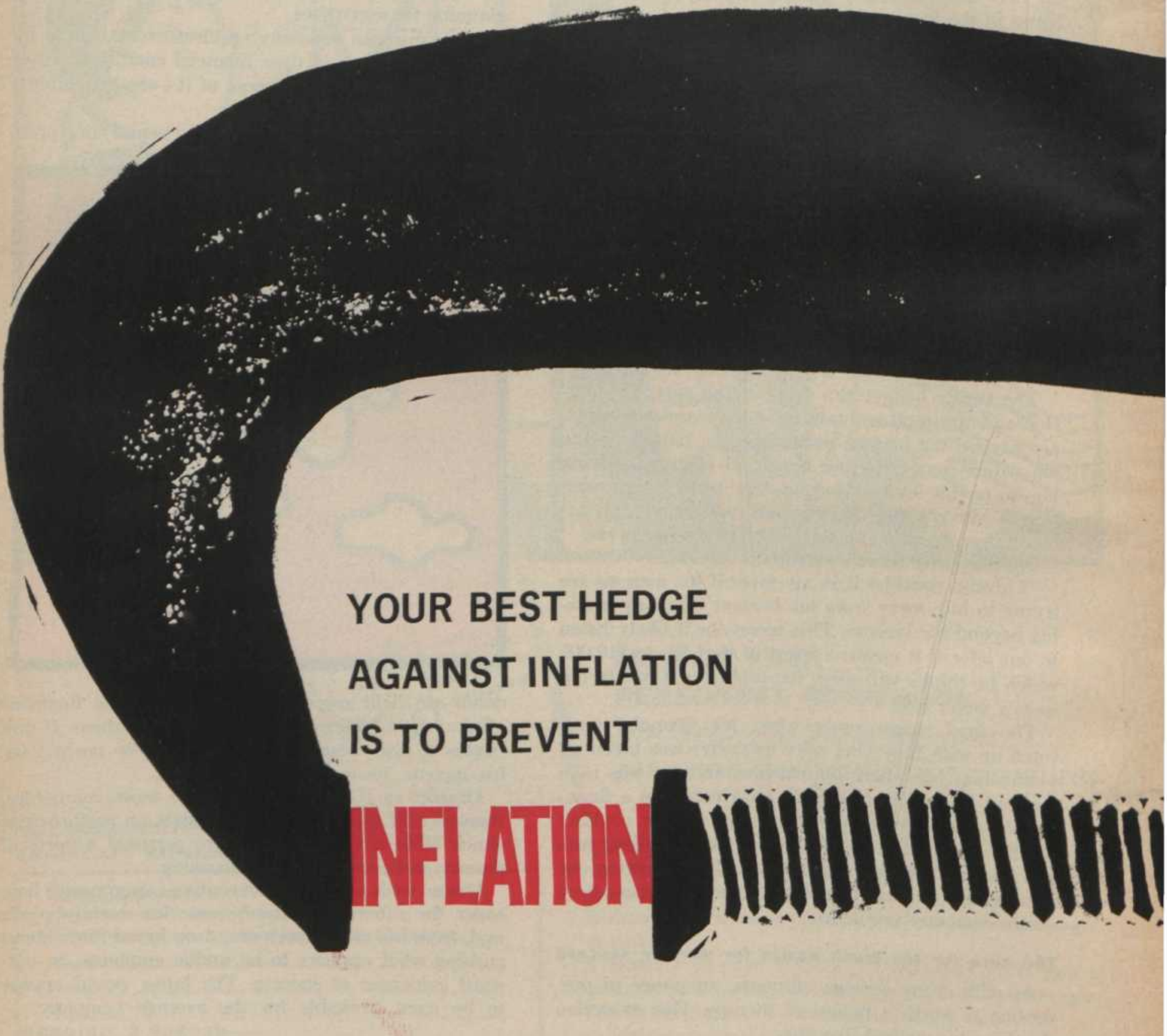
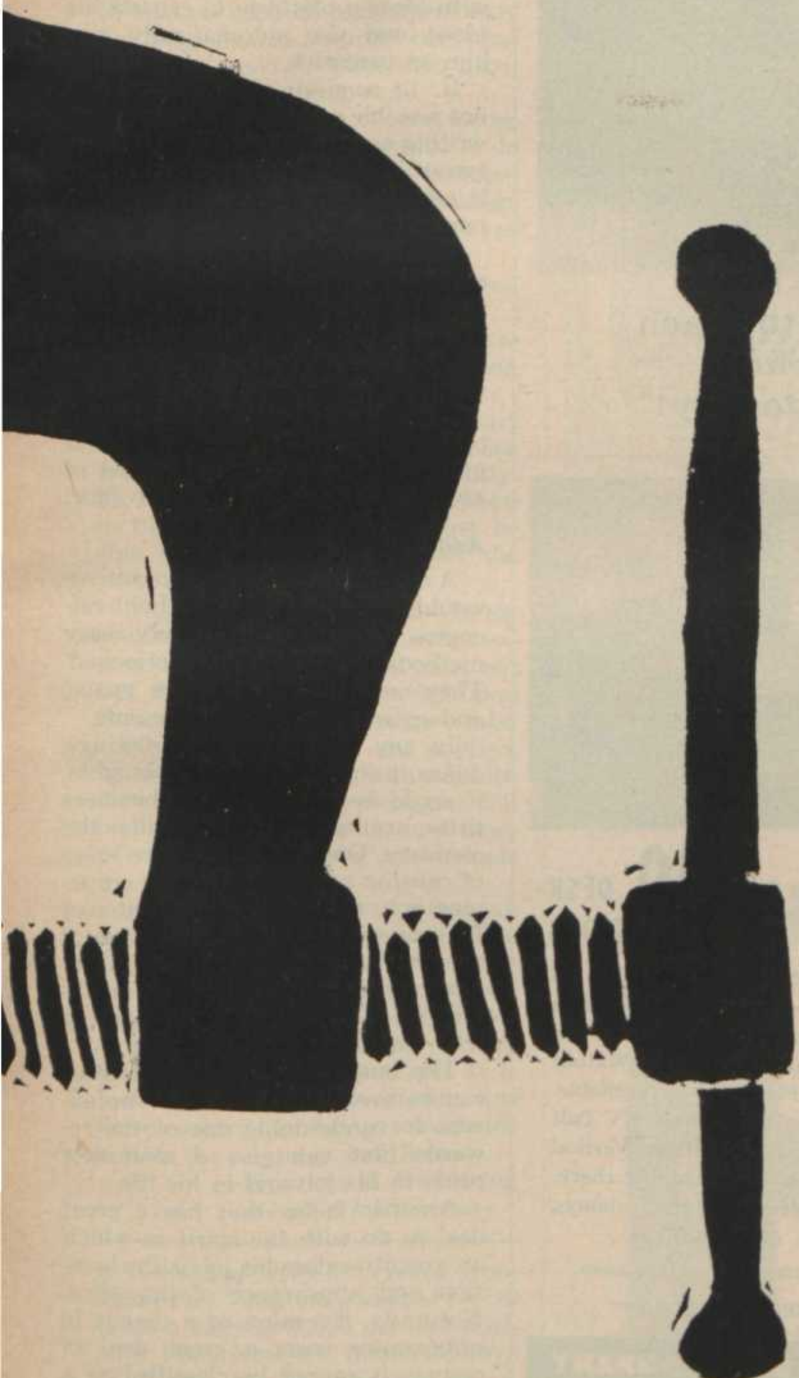

YOUR BEST HEDGE
AGAINST INFLATION
IS TO PREVENT
INFLATION

No matter where you live, or what the source of your income may be, inflation is your enemy. It is your enemy for the simple reason that inflation is everybody's enemy.

Inflation is not a virus which strikes at some, and lets others escape its ravages. It is a plague from which no one is immune.

Inflation shrinks the value of every insurance policy, every savings account, every retirement benefit—every pay check.

Uncontrolled inflation creates speculative excesses. It undermines the integrity of the dollar. It disrupts all economic values. Sooner or later, it plunges the whole economy into disorder.



Your best hedge against inflation—your only hedge, in fact—is to prevent further inflation. To do so, you can do these three things:

1. Work with others to obtain and spread the facts about inflation—and about money, prices, wages, and government monetary policy leading to inflation. Help inform the public about the causes of inflation, and the danger of inflation.

2. Work through the political party of your choice to select, nominate and elect to public office men of integrity and ability who understand the causes of inflation, and who sense the insanity of continued inflation.

3. Express to your elected representatives in Washington your informed views on inflation, and on legislative proposals which would appropriate non-existing dollars and feed the fires of inflation.

To train and equip you to do these things more effectively—and to train and equip you to be a more responsible leader, thinker and doer in the fight against inflation—the National Chamber sponsors and promotes three major training and action programs: *Economic Understanding, Political Participation,* and *Congressional Action.*

For information about any or all of these three training and action programs, and how they operate in the local community, write:

CHAMBER OF COMMERCE OF THE UNITED STATES • WASHINGTON 6, D.C.

KEY MEN
continued from page 41

how this incentive can be provided. The purchasing agent for a large printing concern has a nice home in the suburbs. He invites two members of his staff to his home for a summer week end to talk over policies and practices for the coming months. The setting lends itself to informality. And it gives valuable assistants a chance to be heard.

The search for new ideas via a talk-session with a group—sometimes it's called brainstorming—is a variant in this area of inviting executives to talk. Give a bright man with ideas a platform to express his ideas, and you automatically give him an incentive.

If, in a given situation, talk is not possible or appropriate, consider writing as an alternative. It is often rewarding to a subordinate when he is asked to write his opinion on a particular subject for his superior.

Writing can also serve as an incentive in the other direction. A personal letter or memorandum on a subject of importance from a superior to a subordinate is an effective way of affording recognition.

A good executive will do an even better job if he is given the chance to be heard and seen. The cost of giving this incentive? A little time.

Adding prestige to a job

A discussion of noncost incentives would not be complete without reference to several relatively easy methods that are often overlooked. They include: titles, office space, and extracurricular assignments.

In any society devoid of kings, dukes, princes, barons, and knights, it could be assumed that business titles are unimportant. Quite the contrary. One of the sure-fire ways of causing a stir in the office grapevine is to change one—for better or for worse. More important, one of the best and yet least costly incentives which businessmen have available is a higher or more imposing title for a deserving executive.

The business of giving out titles can be overdone. But this is no excuse for underdoing one of the rewards that can give a man new pride in his job and in his life.

Another factor that has a great deal to do with the spirit in which an executive does his job is the location and appearance of his office. Naturally, if a move or a change in appearance costs a great deal of money, it cannot be classified as a noncost incentive. But some items

(the lettering on an executive's office door) cost so little that perhaps they can slip under the wire as noncost incentives, or at least go on the books as one-time costs.

Other actions, like the exchange of space to the mutual advantage of two executives, may cost nothing.

From time to time opportunities arise for an executive to participate in appropriate activities which reflect credit on the company but which are not directly related to his primary responsibility.

For instance, voluntary charitable organizations are increasingly turning to corporations for individuals to fill leadership posts. Giving a qualified executive the opportunity to take on such an assignment may not only advance a worthy cause but may also uncover leadership attributes previously unknown.

Or there may be a chance for an executive with writing ability to do an article for a magazine, newspaper, or for the company publication. These off-the-job tonics serve as wonderful on-the-job incentives.

Finally, this word of caution: You can overdo noncost incentives.

The devices of job motivation are not to be confused with pay. Rather, they supplement pay.

You cannot inspire a manager merely with the promise that he can look forward to more responsibility. He must be able to see pay increases in his future; at least he must be able to see sufficient pay over the years ahead.

Timing, too, is important. The executive must be ready to accept expanded responsibility. He must not feel that he is being imposed upon in being asked to perform new jobs.

Noncost incentives are applied, as are cost incentives, with the ultimate expectation that managers will be encouraged to greater and more effective participation in business management.

Fortunately, the drive for recognition is one of man's most productive drives. It helps to lead him from errand boy to president, from boy taking piano lessons to talented musician, from boy in the high school debating society to governor. It is inside every man. Satisfying this drive invariably brings dividends both to the company and the man.

—HOWARD R. DRESSNER
New York University

REPRINTS *of "Key Men Need More Than Pay" may be obtained for 10 cents a copy or $7.00 per 100 postpaid from Nation's Business, 1615 H Street N. W., Washington 6, D. C. Please enclose remittance.*

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being redesigned to introduce a totally new architectural design—Colonial type. Low price is no longer a sufficient attraction.

The latest Sears catalog is filled with items that illustrate this upgraded taste and desire for luxury. Typical items featured in this catalog include:

- —Solid brass oriental lamp . $57.94
- —Cotton velveteen lounge jacket for men $19.90
- —Items for "Milady's boudoir," including a hostess robe.... $39.95 and an antique console mirror at $39.97
- —Homespun wool sportswear from Ireland, which includes slim, tapered pants at $25.00
- —A line of loungewear imported from Hong Kong, including a woman's aristocratic bankers' coat $89.95
- —Men's and women's sweaters imported from Italy..... up to $20.
- —A line of Danish modern furniture accessories, including a hurricane lamp, cheese set, casserole service, hot hors d' oeuvre set
- —A line of Italian glass imports, the same as in the most exclusive jewelers
- —A line of chintz provincial china sets featuring "oriental artistry"

Montgomery Ward, which also sells to the market comprised mainly of skilled workers, has introduced a line of suburban furniture which is its attempt to translate Danish furniture design into an integrated line of home furnishings of good quality and moderate price. Wards has reactivated its whole design organization. With the help of outside consultants, it has won prizes for many appliance designs which have been exhibited in the U. S. pavilions in Brussels, Tokyo and Moscow. Next year Wards will introduce a new kitchen line, a utility room line, a "maple shop" and "bath shop."

The largest discount house in Chicago, Polk Bros., last fall successfully imported and sold original oil paintings from Germany ranging from $25 to $800 in price.

It is almost impossible to think of a shopping center in metropolitan Chicago which does not have its art fair, selling art objects, ceramics, antiques, handicraft. Many of these shopping centers featuring art fairs

ARE YOUR SALES AIMED AT BIGGEST MARKET?

Percentage bought by ▶	Business and Professional	White-collar Workers	Skilled Craftsmen	Unskilled Labor
T. V. sets	13%	25%	44%	16%
Food freezers	15	25	45	10
Washers	15	28	43	13
Room air conditioners	28	22	46	4
Vacuum cleaners	13	31	49	7
Refrigerators	14	26	48	9
New furniture	20	32	38	9
New rugs & carpets	14	29	44	11
Landscaping & shrubbery	25	35	31	7
Boats	31	34	25	6
New luggage	28	35	31	6
New autos	21	34	36	7
New watches	21	31	35	12
Auto insurance	16	34	41	7
New homes	19	39	36	6
Home remodeling	21	31	37	10
Bus travel	9	24	47	19
Life insurance	16	32	42	10
Railroad travel	27	31	30	11
Jewelry	27	32	33	8

Figures based on study of sales in metropolitan Chicago last year.

are in so-called working class neighborhoods.

Second in pointers on how to share in this new market: Gear your sales approach to their interests and ideas of what's appropriate.

You should avoid little known colloquialisms and strike toward basic English. Much of the jargon of the advertising business is generally foreign to the new customers.

When you are putting people into ads for these customers to identify with, be sure the models represent their ideal. Advertising which shows machine operators and engineers in their work clothes presents a situation which is repellent to them. They do not think of themselves in this way.

The most prized qualities a creative man can have—imagination and the capacity to create and communicate in new words and colors, in new themes and motives—actually may hinder communication with this new market.

The blue-collar worker is much less likely than the white-collar worker to dream about investments and travel abroad. He has more concrete needs and wants which are well met in advertising such as that of department stores, drug chains and grocery chains. This advertising may have a complete lack of creative esthetics in the copy and art, it may completely fail with the Colonel's lady, but it certainly gets through to Judy O'Grady. It is worth emphasizing that one thing to be avoided in communication to this market is to suggest a lower status. If you want to show the worker on the job, be sure that his ego and dignity are protected. Also these women are quick to see immorality where others might see only sophistication.

Persons in what we used to think of as the middle and upper classes are abstract in their thinking, will plan for the future, and will identify with the larger world.

The new customer is quite different. He has much narrower horizons, he does not identify with far-off situations, and he always seeks identification with the stores and the products where he will be accepted and not feel out of place and which will have ready acceptance among his friends.

Americans have a curious outlook on the problem of class. In theory, we are a democracy. Yet we all want to associate with groups like ourselves, which means that a social or status system definitely exists.

The skilled worker group today is the largest potential for many,

NEW MASS MARKET

continued

many kinds of goods and services, and represents an undreamed-of potential. The automobile industry and the appliance industry, for instance, can attribute their tremendous growth to the fact that they have become necessities to this group. Other industries now face the problem—how to create the same desires and motivations to buy in this enormously prosperous part of the population. The whole subject represents an opportunity for American business.

—PIERRE D. MARTINEAU,
Director of Research and Marketing, The Chicago Tribune

UNIONS

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turing, during the same period, the number of nonproduction workers increased 48 per cent while the number of production workers decreased one per cent.

Data on wages and salaries are also revealing. Ten years ago, 74 per cent of total labor costs in manufacturing was wages; 26 per cent was salaries. Now the corresponding percentages are 67 and 33.

To calculate differently, between 1950 and 1959 total wages increased 54 per cent while total salaries increased 119 per cent. We are moving toward a guaranteed annual wage—everybody on a salary—not as a result of labor union bargaining but as a result of technological change.

The years ahead will see further movement in this direction as machines, plus salaried, skilled technicians, take the place of production workers on an hourly wage. By 1970, close to 50 per cent of the wage and salary bill in manufacturing will be salaries. In other industries the percentage will run much higher. The effect of machines on the farm, for example, is not so much to displace the farm manager as the hired hands. Prefabrication in building construction substitutes machinery and technicians in the factory for workmen on the building site. In mining, automatic machines for digging, loading, conveying, cleaning and sorting displace, not mine managers and engineers, but manual labor.

An additional factor is the increasing number of women in the

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labor force. Women have always been much harder to organize than men. As the female component rises, the portion of the labor force that is organizable will shrink even further.

Still another factor is the current tendency—an outgrowth of automation—for business firms to shift to smaller towns. Workers in these less impersonal communities are typically more difficult to organize than their counterparts in metropolitan areas.

Thus, the number of persons who are likely to be attracted by labor unions is shrinking, both relatively and absolutely. Unions are likely to decline in membership potential.

Shift in the function of unions

While the potential membership of unions is declining, a fundamental change is occurring in the function of unions. Two and three decades ago, wage earners believed strongly that they were an exploited group. They were unorganized and uninformed. Their bargaining position was weak.

Increases in economic benefits (wages, fringe benefits, and the like) to workers could be obtained through organization, they were told, by forcing the other factors of production (notably capital) to take a smaller relative share. With a big assist from the Wagner Act, unions seized this opportunity and demanded a larger slice of the economic pie.

Whether or not labor has improved its economic position by forcing the other factors of production to take less is a debated point among economic statisticians. Whatever may be the true answer, it seems clear that by now virtually all union leaders and even most of the rank and file realize that any further gains for labor as a whole cannot come out of the other factors of production. They know that from now on any significant gains in real incomes of wage earners as a whole must come from increasing productivity.

At the same time, employers generally recognize that labor, along with capital, is entitled to wage gains matched by productivity increases.

These gains, in principle at least, they do not resist. What they do resist is interference by unions in management's efforts to increase productivity. These efforts almost

how to find community leaders

One good way is to seek out the people who have a vital stake in community progress, community issues. Presidents, owners, partners and top executives of business, for example—men who are called upon by their fellow-citizens to contribute their business and professional skills to the more efficient handling of community affairs. NATION'S BUSINESS *surveyed a cross-section of its 750,000 subscribers and found that:*

. . . 5 out of 10 engage in community activities—work on school and hospital boards, safety committees, industrial development programs, city planning, financing, water supply, zoning, park development, Mayors' committees, and more.

. . . 7 out of 10 are active members of one or more local service clubs—Chamber of Commerce, Lions, Rotary, Kiwanis, Elks, veteran organizations.

. . . 43% had corresponded with their Congressmen in the past three years on legislation of national and local importance.

. . . 44% make speeches—to employees, business groups or civic groups on topics of community, business or professional interest . . .

how to move community leaders

Advertise to them in a medium that moves them to action. NATION'S BUSINESS, *for example. Issue after issue,* NATION'S BUSINESS *presents programs and suggestions for action, urges businessmen to participate more frequently in community and national affairs . . . in local, state and national politics . . . in the shaping of legislation and the choice of candidates most beneficial to community and business growth. They know that action makes things happen. Some measure of their participation lies in the fact that in 1959, for example, 21,389 business firms purchased 526,574 reprints of* NATION'S BUSINESS *articles . . . to use as guides in formulating their own community-growth programs . . . as springboards for speeches, letters-to-the-editor (and Congressmen) . . . as a basis for political action . . . and in hundreds of other ways they considered in the best interest of their communities and their businesses. In the pages of* NATION'S BUSINESS, *you talk to community leaders at a time when they are on the lookout for new ideas they can use in these fields—making it an ideal vehicle for any public relations advertising aimed to spur action.*

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always involve changes that displace workers.

Wage rates will always be an issue in labor-management disputes, partly because techniques for calculating productivity change are far from perfect. Moreover, there is always the temptation to press for gain at the expense of other workers, especially in those industries in which higher wages can readily be passed on in the form of higher prices.

But if we have a generally accepted principle of wage determination, the strategic role of the union is changed. No longer is the single objective of unions that of Samuel Gompers: "More." The objective is to see that a formula, agreed upon in principle, is fairly applied in practice. This is not likely to require emotionally militant union activity.

As the wage issue declines in importance, however, the power issue will rise. Under the pressure of highly competitive technological research and development, employers will be eager to press for every possible change that will increase labor productivity. They will demand management prerogatives which they once had but which, a decade or two ago, they surrendered to the unions.

Unions, on the other hand, will vigorously resist giving up these prerogatives, for two reasons:

First, they want to prevent or minimize disemployment of their members. Frightened by rising technological unemployment and angered by the loss of jobs to labor-saving machinery, labor will not only resist giving up previously won prerogatives, it will demand a larger say in the decisions that determine how many jobs there are. This translates into a demand for greater control over day-to-day operating decisions as to which machines shall be used, which processes shall be employed, how many men shall be assigned to each job, when jobs shall be done, and other work rules.

Second, and perhaps even more important, surrendering these prerogatives would reduce the power of union officers. This they will resist to the bitter end. Making a concession on behalf of the members is bad enough. If the concession is likely to reduce the membership and therefore the income of the union, and if it erodes the power and influence of the officers who are

doing the negotiating, it is likely to be opposed with all possible weapons.

In the steel strike, for example, if wage rates had been the only issue, a settlement could have been reached without undue difficulty. What prolonged the strike was the fact that the steel companies were demanding that union officials give up some of their controls in the area of work practices.

The solution to these problems is not simple, but neither is it impossible. It lies in simultaneous action along two roads: One is stimulation of total demand so that expansion in total employment opportunities is made relatively easy. This could involve a risk of increasing inflationary pressures. Second, we need to prepare youngsters, as well as

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many older persons, to fit themselves into the automated economy. This will require not only changes in the regular high school and college programs, but also expansion of educational opportunities for those who have completed their regular schooling and need further training or retraining. We must provide an appropriate educational background if the advantages of advancing technology are not to be wasted in unemployment or in underemployment.

In effect, the solution of this broad social problem is the same as the solution to the typical problem of any business firm: 1. Expand the market for the product. 2. Adapt the product to the market. We have solved similar problems many times in the past. Even though the 1960's will present a bigger problem, we can solve it, too.

—ROBERT C. TURNER
Indiana University

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OLD RULES FATTEN $12 BILLION PAYROLL

Our nation's largest employer—the federal government—needs these personnel reforms

ANTIQUATED METHODS of hiring, firing, promoting and paying government employes are running up your tax bill.

As a busy executive, you may feel that you have enough problems in your own shop without worrying about the government's use and misuse of manpower. But as a citizen and taxpayer, you have a vital interest in reforming some features of the federal civil service system which are inherently antagonistic to efficient personnel management.

Consider these facts:

During the past century, the federal civil service has grown 4,600 per cent, from 49,000 employes at the start of the Civil War to 2,344,928 at the end of January, 1960.

Disregarding the armed forces, 14 out of every 1,000 Americans now work for Uncle Sam. In Abraham Lincoln's day, only two out of every 1,000 were federal government employes.

With a civilian payroll of more than $12 billion a year, the federal government is by far the world's largest single employer. It employs more people than our eight largest industrial corporations combined.

Fifty per cent of the government's civilian employes work for the Department of Defense. Scattered through thousands of installations around the world, they are building and testing missiles, outfitting ships, repairing planes, operating supply depots, writing paychecks for servicemen, keeping records.

Another 20 per cent work for the Post Office Department, handling the mails.

An additional eight per cent are employed by the Veterans Administration, staffing hospitals and administering compensation programs and other benefits for veterans of past wars.

That leaves only 22 per cent to do all the rest of the government's work—running the Federal Bureau of Investigation and the foreign service, collecting taxes, putting out fires in national forests, printing money, writing social security checks, checking the purity of drugs, tracking down smugglers and performing many other services. Try eliminating just one of these functions, and special interest groups start howling to an ever heedful Congress.

The only realistic way to curb the growth of the federal payroll is to enable the government to operate more efficiently. The first step is to introduce modern concepts of personnel management into a civil service system that notoriously lacks them at present.

No particular person, party or agency is to blame for this situation, least of all the U. S. Civil Service Commission, which has long been trying against terrific obstacles to modernize government employment procedures.

The real villain is history. Our civil service laws have been enacted piecemeal over a long period and efficient use of manpower has never been one of their objectives. They are primarily designed to correct the political patronage evil which filled government jobs with party hacks in the Nineteenth Century. With 85 per cent of all government jobs now under some kind of competitive examination system, the patronage problem is no longer large. But the safeguards erected against it have become a serious barrier to good management.

Experts have repeatedly spotlighted this difficulty, and pointed out ways in which it could be relieved without reopening the door

Present system often protects the incompetent . . .

and holds down the talented

PAYROLL

continued

to patronage. But relatively few of the proposed reforms have been put into effect.

It is time the business community threw its weight into the struggle for sensible personnel management in government. To do so, businessmen need specific facts about the most glaring weaknesses of the present system.

One of these weaknesses is the so-called classification procedure which determines the pay of most white-collar workers outside of the postal service. Created to insure "equal pay for equal work" (in other words, to avoid political favoritism in setting pay scales), its basic concept is that the salary attaches to the job, rather than to the man.

It works this way:

Each government job is described, in writing, in terms of its duties and responsibilities, and the qualifications required to fill it. The job is then rated, or classified, as falling into one of 18 different grades established by law. The lowest grade is called GS (for General Schedule) 1, the highest GS-18.

There is one salary ($17,500 a year) in Grade 18. In all other grades, there are several pay steps. An employe normally gets an automatic in-grade pay boost each year until he reaches the top of his classification. But these in-grade pay steps are small. For example, the seven steps in Grade 1 carry an employe only from $2,960 to $3,530. The range in Grade 9 is from $5,985 to $6,885.

If a government employe has reached top pay for his grade, or if he wants a raise bigger than $100 or $200 a year, he must get into a higher classification. He can do this either by moving up to a different job or by getting his present job reclassified into a higher grade.

Herein lies the temptation for empire building.

The Civil Service Commission has listed eight factors which are supposed to be taken into account in classifying a job and the number of employes supervised is next to last on the list. But in actual practice, classification officers tend to give considerable weight to such readily-measured (and readily-defended) criteria as the size of the unit supervised and the amount of its annual budget.

So it works out that one way to get a raise in federal service is to enlarge the unit you supervise—either in terms of staff or program or both.

Except for the fact that there are at least twice too many grades, the classification system works reasonably well in the lower echelons. The work of a clerk-typist in one job is pretty much like that of a clerk-typist in any job. The real troubles occur in the higher grades.

Aside from the empire-building problem, the system tends to force specialists to switch to administrative work (for which they may be ill-suited) if they want to progress up the promotion ladder. Under the present classification rules, a professional man may work his way up to around $10,000 a year solely on the basis of professional skill. To go higher, he must supervise other people. As a result, many valuable technicians become miserable administrators in order to get a raise of $1,000 a year.

The Civil Service Commission is seriously considering a dual-track

"The profession of politics should always be one of our most highly respected professions. It should attract our ablest and most responsible people. In terms of status and recognition in our communities, there should be no higher role than that of politician. This must be true if we are to have the kind of government which can cope with the problems of coming centuries."

ERWIN D. CANHAM
President,
U. S. Chamber of Commerce

promotion system which would allow professional people to go all the way to the top grades without assuming supervisory duties. This would be a most worth-while reform.

The greatest failing of the classification system is seen in the highest grades, where the government's career managers are found. As any business executive can testify, it is virtually impossible to differentiate between one managerial job and another solely in terms of mechanistic job descriptions. A man who simply sits and thinks may be of infinitely greater value to management than one who has a score of routine administrative responsibilities.

The military services and the State Department's Foreign Service get around this problem by a system which vests rank, status and pay in the man rather than the job. A colonel remains a colonel, what-

ever assignment he is given. A foreign service officer goes where he's needed, secure in the knowledge that his pay and promotion depend on his own performance rather than the number of clerks he happens to have under him at the moment.

The second Hoover Commission strongly urged that the same rank-in-the-man concept be applied to the upper echelons of the civil service. Specifically, it called for creation of a Senior Civil Service, composed of career administrators in Grades 15 through 18, who could be assigned to managerial duties wherever needed without loss of pay or status.

President Eisenhower and the Civil Service Commission were enthusiastic about this proposal, but Congress has blocked it so far.

Unfortunately, the classification system is only one of the administrative heirlooms cluttering up federal personnel management. In virtually every phase—hiring, performance rating, promotion, and firing—there are roadblocks to efficiency.

Let's begin with hiring. If a government agency wants to hire a new employe, it sends to the Civil Service Commission for a "register." This register is composed of people who have taken and passed a competitive examination for that particular type of job. They are ranked on the register in terms of their precise score on the examination, on a scale of 100. A man who scored 85 stands ahead of one who scored 84.5. Any veteran who passes the test automatically gets a bonus of five points on his score and, if he is drawing disability compensation, he floats to the very top of the register regardless of his score. The hiring agency theoretically can choose any one of the top three eligibles from the register—but if it passes over a veteran it may be required to explain in writing why it did so.

Considering that the United States has not been involved in a shooting war in seven years, and that the readjustment period for wartime veterans is presumably past, some people question whether veterans' preference in the federal employment is still desirable or whether it is just another drag on the discretion of hiring officials to get the best man for the job.

Aside from this, however, personnel experts in private industry are appalled at the idea—implicit in the government system—that any competitive test procedure is sufficiently accurate or reliable to differentiate, down to a fraction of one

PAYROLL

continued

per cent, between the abilities of several prospective employes. Even the best test, they say, overlooks many considerations of personality, suitability, and the like, on which the hiring officer should have some leeway of personal choice after interviewing prospects.

Reforms have been suggested. One, already used by the Tennessee Valley Authority, is to group applicants into a few broad categories such as "outstanding," "qualified" or "not qualified" on the basis of their test showings. The other is to give hiring officers a choice among five eligibles instead of three.

Although an employe must pass a competitive examination to get into the federal service, he may thereafter remain in it for 30 years and move up to the highest pay grade without ever again being subjected to any objective measurement of his qualifications.

Theoretically, every government employe receives a performance rating from his superior at regular intervals. But the procedure is meaningless, because 98 per cent of all government workers are always rated "satisfactory." To give a worker a higher rating of "outstanding," a supervisor must be prepared to present documentary proof of exceptional performance. If he wants to rate a worker "unsatisfactory," he must give the worker a 90-day warning in writing and be prepared to fight the case through several levels of review and appeal. Most supervisors figure it just isn't worth all that trouble.

Drastic revision of the whole performance-rating system has been recommended, with supervisors required to report frequently and in detail to their own superiors on all of the personnel under their charge. These reports should identify employes with potential for development, and suggest training or new assignments to assist their progress. They should also put the finger on misfits, recommending them for transfer, discharge or denial of in-grade pay increases.

Nothing has been done about this suggestion. Performance ratings continue to be purely perfunctory; in-grade pay increases are still automatic as soon as the employe has served the requisite time. For the vast majority of employes who fall between the extremes of outstandingly good or bad, Uncle Sam draws no distinctions between chair-warmers and hard workers. Even the outstandingly bad employe is reasonably secure in his job—if he happens to be a veteran, as 55 per cent of all federal civilian employes now are. Before 1944, the government had a simple, fair and workable system for discharging unsatisfactory employes. The unsatisfactory employe was given a written statement of the charges against him and a reasonable opportunity to reply. The head of the agency had to consider the reply, but after that he was free to take whatever action he saw fit. A discharged employe could appeal to the Civil Service Commission if he believed that there was racial, religious or political discrimination against him.

This system is still in force for nonveterans. But in 1944 Congress enacted a Veterans' Preference Act which, in effect, makes it impossible to discharge a veteran without going through what amounts to a judicial-criminal proceeding with many hearings and appeals to the Civil Service Commission and even to the courts.

This law relieves the employe of any necessity for demonstrating his competence and usefulness to his department, and in effect guarantees him a job unless his supervisor can prove in a formal proceeding that he is incompetent. This leads to intolerable work situations.

If a courageous supervisor does undertake to fire a glaringly incompetent employe who happens to possess veterans' preference, the whole office is demoralized while the supervisor attempts to build a file against the employe—and the employe fights back. The hearing and appeal procedures that follow often turn into a trial of the supervisor rather than the employe.

Under these circumstances, it is remarkable that 15,100 federal civil employes actually were discharged for cause in 1959. A great many of them were nonveterans who were relatively easy to fire.

The veterans' preference law also complicates the task of laying off surplus employes when an agency undertakes (or is compelled by a cut in appropriations to undertake) a reduction in force. Any veteran who faces layoff has bumping rights to claim the job of any nonveteran who is employed in the same classification in his agency. Although the retention rights of the veteran over the nonveteran are absolute, employes with longer service have the right to bump those in their group with shorter service.

The net effect is that even a

small reduction in force sets off a chain reaction of bumping in which dozens or scores of employes change from familiar to unfamiliar jobs. The demoralization of an agency that can result from this process is so great that supervisors will fight to avoid a reduction of even one job in their units.

Virtually every group that has studied this problem—and there have been many—has concluded that it is time for a drastic modification of veterans' preference rights in discharges and layoffs. The usual proposal is that a veteran be given special rights only during the first five years after his honorable discharge and that he thereafter be treated like any other government employe.

This would simplify and enormously improve federal personnel management, but it would take a great deal of public pressure to persuade Congress to undertake such a reform.

Although managers in government have little power to discharge unsatisfactory workers, or to grant or withhold in-grade merit pay increases, they do have, in most cases, wide discretion about promoting employes to fill vacancies in higher classifications. Any employe who has once passed the entrance examination for a certain type of work—say, as an economist—can be promoted to higher grades in the same line of work without further competitive examination. The door is wide open to favoritism—usually on a personal rather than a political basis.

Even if a supervisor is conscientious about selecting a qualified man for promotion, he is, in the nature of things, likely to pick one who is highly visible by virtue of working at a nearby desk, riding in the same car pool, or belonging to the same alumni club.

The Civil Service Commission is currently fighting this problem. It is urging all federal agencies to set up fair, workable systems for merit promotion and to insure that all potential candidates are examined before a job is filled. The eventual goal, still a long way off, is a government-wide roster of promotables from which managerial vacancies in any agency may be filled.

That brings up the biggest personnel problem which the government faces—the one which underlies all the rest. It is an acute and continuing shortage of real management talent.

"Increasing the supply of mana-

Advertisers in this issue • April 1960

PAYROLL

continued

gerial talent available within the government on a stable basis will quickly and directly increase the effectiveness of all other federal employes," said the second Hoover Commission. "This is the heart of the federal personnel problem today, and this is the area where the greatest benefits are to be gained."

Hope for solving the problem by borrowing skilled managers from private industry has waned in the past few years because businessmen are unwilling to stay in Washington long enough to do any real good. A survey by the Harvard Business School Club of Washington showed that 70 per cent of the businessmen who accept government positions remain less than one year.

Only one solution is left: The government must develop its own career executives within the federal service.

The brightest note in the otherwise gloomy personnel picture is that the government is now working hard at that task. Congress, which hitherto had been extremely miserly about financing training programs for federal employes, enacted in 1958 a law which empowers every government agency to underwrite the training of promising employes through in-house programs or at outside institutions.

Under the leadership of the Civil Service Commission, a growing number of career federal executives are participating, along with industrial managers, in courses offered by the American Management Association, the University of Chicago and the Brookings Institution.

The Commission is studying plans for a civil service staff college which would give government managers advanced professional training comparable to that which military officers get at the War College.

On Feb. 12 of this year, the White House released a letter stressing "the President's personal interest in establishing throughout government a sound program for developing and training career managers."

It instructed every federal agency to conduct a detailed inventory of its future management needs, and to formulate an "orderly plan for developing capable replacements."

This is one government program that businessmen will doubtless want to see expanded. **END**

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The chorus is sad because the American people are spending their money for luxuries while the government starves on an $80 billion pittance.

As a result, they tell us, our defense is porous, our social services inadequate, our welfare programs penurious.

What is needed, the critics say, is a dynamic program of public works. This will pull a little tighter the velvet fetter of federal paternalism and make everybody free.

Instead of frittering our money away on automobiles, refrigerators, air conditioners and home laundries, the government will invest wisely in things that will make us strong.

Admittedly the private consumer does not always display the finest wisdom in the market place. He is as likely to buy what he wants as what he needs.

But an advantage of freedom is that both are available. If the citizen wanted the things the planners say he needs, he could have bought them.

In many states or localities he has bought them. If they prove their worth, the market for them will spread.

If the federal government becomes determined that he shall have these things whether he wants them or not, it can probably force him to accept them. But it won't get them for him wholesale. It will either raise his taxes to make him pay for them or increase the national debt and let his children pay with cheaper dollars.

And the fact that the spending is planned in Washington will not assure it is either wise or effective.

The young mother who buys a home laundry may—according to the planners—have bought a luxurious nonessential but she usually knows what she bought it for and how well it serves her purpose.

Events in Washington have demonstrated that the government does not necessarily know that. Experts in our biggest spending unit—the Defense Department—can't be sure whether they have bought wisely, have bought enough or have bought the right products. The Secretary of Defense says that our defense is sufficient.

Qualified military men say it isn't. The three services can't agree on what should be done or who should do it.

The original purposes of social security have been lost in politics.

The administrative agencies have difficulty explaining whether they have done what they should have done.

The highway program is confused.

The list could go on.

President Eisenhower has said:

"America's economic strength is not in Washington or in public spending. It is in the creativeness, industry and spirit of our people."

We know that formula works. It will work better if the federal government, by sound fiscal policies and refusal of subsidies, encourages people, cities and states to work out their own salvation.

Nation's Business - April 1960

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